



“Bosch Limited Q4 FY17 Post Results Conference Call”

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MODERATOR: **MR. ANNAMALAI JAYARAJ – DIRECTOR & DEPUTY HEAD – AUTO SECTOR, BATLIVALA & KARANI SECURITIES INDIA PVT. LTD.**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Bosch Limited Q4 FY17 post results Conference Call hosted by Batlivala & Karani Securities India Pvt. Ltd. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing ‘*’ and 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 B&K Securities. Thank you and over to you, Sir.

Annamalai Jayaraj: Thank you. Good afternoon everyone. On behalf of B&K Securities, welcome to the 4Q FY17 full year post result conference call of Bosch Limited. I also take this opportunity to welcome the management team of Bosch Limited. We have with us today Mr. Soumitra Bhattacharya – Managing Director and CFO, Mr. Jan Oliver Roehrl – Executive Vice President (Engineering) & Regional President (Diesel Systems), and Mr. S. Karthik, Joint CFO. I would now invite Mr. Soumitra Bhattacharya for his opening remarks to be followed by Q&A session. Over to you, Sir.

Soumitra Bhattacharya: A very good afternoon to all our investors and financial analysts, my name is Soumitra Bhattacharya and I have to first apologize that there was a technical problem, and therefore, this 15 minutes delay. Colleagues, I would like to first give you a feedback and update on our results, but before we look into the results of January-March 2017 quarter of our company, I would like to brief you about the overall domestic automotive market development in the last quarter looking at production volumes excluding the two wheelers. During the quarter-ended March 2017, the Indian automotive market grew by 7% against the quarter-ended March 2016. Light commercial vehicles had a muted growth against the quarter-ended March 2016 due to the impending emission changeover. Heavy commercial vehicles decreased by 6%. Tractor industry increased by 34% on account of harvest festival demand and 100% loan offerings from financial institutions. The passenger car segment grew by 12% due to launch of new models along with discounts which pushed the passenger car sales. The three-wheeler segment saw a decline of 25% yet to recover from the demonetization effect and also the decline in exports.

We now look at how the Company has performed in January to March 2017 quarter sales:

The company clocked gross sales and income from operations of Rs. 27,344 million which means Rs. 2,734 crores, an increase of 6.1% over the same period of 2016. The Mobility Solutions segment grew by 4.2% whereas the business beyond Mobility Solutions grew by 17.2%. The domestic sales for the quarter grew by 7.1% thereof Mobility Solutions by 5.2% and business beyond Mobility Solutions showed a strong growth of 21.5%, albeit on a low base. Gross sales and income from exports declined by 7.4% with exports in the Mobility Solutions segment declining to the extent of 6.5%, mainly due to decline in overseas markets like China. Exports of business beyond Mobility Solutions declined by 20.4% mainly due to lower exports during the period from part tools divisions, packaging division, and thermal technology.

Other Operating Income:



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The other operating income has declined by 735 million which is from Rs. 1,193 million in January-March 2016 to 458 million in January-March quarter of 2017. This has happened due to a higher write-back of excess provision of the earlier years during the previous quarter and a one-time government grant received in previous quarter.

Material Cost:

Material cost as a percentage of gross sales and income from operations has reduced from 48.9% in January-March quarter of 2016 to 44.8% in the current quarter of 2017. This is mainly due to a favorable exchange rate, reduction in actualization and devaluation amount due to the reduction in aged inventory, transfer price changes as well as realizations from various cost reduction projects on materials.

Employee Cost:

The employee cost has declined to Rs. 2,826 in the current quarter from Rs. 3,589 million in the quarter-ended March 2016. This on account of productivity in direct and indirect areas, one-time reversal of restructuring costs no longer required, reduction in head count, reduction in retiral benefit and consequent to the increase in discount rates.

Depreciation:

Depreciation has increased by 13% in the quarter-ended March 2017 as against the quarter-ended March 2016. We made capital additions worth 2,700 million approximately during the current quarter mainly in new generation products in our Bidadi and Nashik manufacturing locations attracting higher depreciation. We plan to invest approximately 5,500 million in the current year 2017 both for infrastructure as well as for technology to be prepared for the market in the midterm. We have planned for capacity increase in our Adegodi, Bidadi plants as well as Nashik for new generation products.

Other Expenses:

Other expenses stood at 3,626 million in January to March quarter 2017 as compared to 3,191 million in the same quarter of 2016, an increase of 13.6%. This is on account of higher requirements of tool, technical service fees for new generation product consequent to emission changeover as well as the new products in the two-wheeler segment. Operating profit is higher by 27.1% in the current quarter compared to the corresponding quarter in the previous year. Higher sales, favorable product mix, continued focus and operational efficiencies, and realization of benefits from organizational restructuring undertaken in the previous year and reduction in personal cost on account of continuous productivity measures have contributed to the increased operating profit on a quarter-to-quarter basis. Other income has decreased from 1,753 million in quarter-ended March 2016 to 1,310 million in the quarter-ended 2017, a reduction of 25.3%. The

reduction is on account of due to the reduction in write-back provision and one-time government grant in previous quarter as well as low interest income due to reduction in the investment corpus consequent to pay out after buyback and special dividend.

In the quarter-ended March 2017, the company posted a profit before tax or PBT of 6,624 million as compared to 6,076 million in the same quarter of 2016, an increase of 9%. As a percentage of sales, PBT stood at 24.2% in the current quarter as compared to 23.6% in the corresponding quarter from 2016. Consequentially, profit after tax has decreased by 6.8% for quarter-ended March 2017 against quarter-ended March 2016 due to higher tax provision in the current quarter.

To summarize the quarterly results – our top line increased by 6.1% driven by consistent performance of our Mobility Solutions and strongly backed by business beyond Mobility Solutions segment. Our continued growth in the domestic market is in line with the growth rate of the automotive production. Profit before tax increased substantially due to the improvement in the operating efficiency as has been explained earlier.

Now, I will give a synopsis of the key results of April 2016 to March 2017 as compared to April 2015 to March 2016:

The Company clocked gross sales and income from operation of Rs. 1,09,834 million, this means 10,983 crores, an increase of 7.6% in April 16 to March 17. The Mobility Solutions segment registered a growth of 6% and the business beyond Mobility Solutions grew by 16.8%. Domestic sales grew by 8.6% with growth in both segments. Exports declined by 5.4% coming majorly on the Mobility Solutions segment. Material cost as a percentage of gross sales and income from operation showed a decline from 48.7% in April to March 2016 to 48.3 in April to March 2017. The employee cost in absolute value has increased by 397 million, however, as a percentage of sales, it has reduced from 12.8% in 2015-16 to 12.2% in current year 2016-17. The Company posted a profit before tax of Rs. 20,944 million that means 2,094 crores which increased by 0.6% in comparison to the 20,824 million in 2015-16.

As a percentage of sales, it is stood at 19.1% in the current year as compared to 20.4 in the corresponding period of 2015-16. Profit after tax has decreased by 4.5% as compared to April-March 2016. The profit after tax in 2016-17 is 14,441 million whereas in 2015-16, it was 15,123 million. Decrease is mainly due to higher tax provisions in 2016-17 as compared to 2015-16 which had a one-time benefit of deferred tax income on account of recognition of long-term capital loss. The Company has also prepared the consolidated financial statements of the group which has one subsidiary company, MICO Trading Private Limited and our associate company, Newtech Filter India Private Limited. The subsidiary company has not commenced its operation, hence there is no material impact on the group's financial statement.

Outlook:

Our focused forecast for this year remains cautiously optimistic. We expect a normal monsoon, reducing interest rates, improved liquidity post demonetization, the market sentiments look to us positive. Additionally, there are several key reforms like GST, smart cities, and we have a stable political situation taking place in the economy which indicates a moderate growth for the automotive industry as well as for the non-automotive sector. We are optimistic about the growth and at meanwhile, we are cautious to ensure the necessary course corrections. Proposed rollout of GST by July 1, 2017, is expected and we expect to have some short-term impact or disturbances, however, it will help us and the country to grow in the long run. Bosch is well prepared for the transition to the GST. Thank you very much and I await your questions, please.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question and answer session. We will take the first question from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi: My question pertains to the BS-IV implementation on commercial vehicle side, how does it change the competitive positioning of Bosch, are we seeing any changes in our share of business from our key OEMs on commercial vehicle?

Soumitra Bhattacharya: We have accompanied our valued customers in a holistic manner on the journey from BS-III to BS-IV, and as you know Bosch gives complete, not just product and services, but also a complete business solution and we have done this well along with the customers and this does not change our position.

Jinesh Gandhi: Our market share would be largely intact. Second question pertains to in the same vein, in terms of our content per vehicle for commercial vehicle, how does it change in the BS-IV versus BS-III?

Soumitra Bhattacharya: I am going to request our CTO to comment on this, please?

Jan Oliver Roehrl: Good afternoon, Ladies and Gentlemen. I will give a qualitative answer to that. You are well aware that BS-IV, the first time in the market for the commercial vehicle, we are swapping the mechanical systems to what we call common rail system, so electronically controlled fuel injection equipment and of course already there is offered a higher value to the car then based on the mechanical system. If you just take the number of complexity in the system, this is adding value and to that extent also adding sales volume and that was what my colleague, Mr. Bhattacharya, was referring to when he was explaining the numbers.

Jinesh Gandhi: Any sense by what percentage increase we should see in your content?

Soumitra Bhattacharya: We do not give these guidance, but you already got to hear that the main transition is from mechanical to electronic as well as that there is some amount of EGT, but the major part of that will come in the BS-VI, so guidance in terms of content increase and other things, we do not give, but there is a increase, yes.

Jinesh Gandhi: Second question pertains to the RM cost reduction which we have seen in this quarter, you indicated that it is primarily due to favorable FOREX and I am presuming this is on the import side, but you alluded to aged inventory and transfer pricing changes, can you throw bit more light on that?

Soumitra Bhattacharya: I would request all the analysts on the call and others to look at these numbers both for quarter as well as for the year. If you look at the quarter in the RM cost, raw material cost, has gone down from 48.9% to 44.8%, so that is a substantial change, but if you look at the yearly amount, that is 48.7 to 48.3. There are two points to it, first is there can be a quarter-to-quarter deviation. We are managing our raw material costs well because we have long term contracts with our suppliers. We look at the firming of prices on the commodity market especially the metals and we use steel as well as aluminium and having said that, we also look at as I said the medium and long term in terms of contracting, in terms of how we use, so I would say there have been several issues which have led to this major improvement for this quarter, but a better way to look at is for the year as a whole and this gives you reasonably good feel that the percentage is under control and yet there is a marginal reduction for the year as compared to the last year.

Moderator: Thank you. The next question is from the line of Pramod Amte from CIMB. Please go ahead.

Pramod Amte: Two things, one with regard to, again BS-III to BS-IV, other than the fuel injection change, would you be supplying any of the after-treatment equipment for the first time like EGR, SCR, or any parts related to the same and hence your content increase there?

Jan Oliver Roehrl: BS-IV already is let us say having beyond electronic fuel injection equipment, a minor share of after-treatment system that is adapted across the market if we just take Diesel Oxidation Catalyst. Beyond some of the customers are already going with SCR solution, Selective Catalyst Reduction, that is not passive but active, so it means it is controlled via our ECU and to that extent yes, so we have all the customers that are already going beyond the minimum of adoption in the after-treatment system. In general, you cannot define upfront whether or not you have to adapt to the full landscape of after-treatment system which is by the way also true for BS-VI. It is always depending on the engine and on the targets that are set by the engine.

Pramod Amte: Second, with regard to the GST, do you expect your aftermarket inventory correction to happen and the result of which would you like to quantify for FY17, what proportion of your sales were aftermarket?

Soumitra Bhattacharya: Bosch is well prepared for GST. We have been working on GST for the last two years and we have made very clear and detailed game plan for all our divisions on GST, both at the public listed company which is Bosch Limited about whom we are talking as well as the whole Bosch Group which is 10 legal entity, so this applies also for aftermarket, so beyond this I think I do not need to indicate. We are taking care of ensuring also because Bosch being a very ethical and value-based company that this anti-profiting aspect will not happen and we are trying to ensure registrations

with our vendors and progress pretty well, so I would give this generic answer. Aftermarket is part of this process of the inventory management and across all divisions we are doing it.

Pramod Amte: I wanted to know basically what proportion of your sales is aftermarket and how are your dealers prepared for the same?

Soumitra Bhattacharya: I think we indicated approximately the aftermarket, it is around anywhere between 20 to 25% of the Bosch Limited turnover, and we have a big aftermarket and we are well prepared for that.

Moderator: Thank you. We take the next question from the line of Ashish Nigam from Axis Capital. Please go ahead.

Ashish Nigam: Can you just indicate what is our market share in electronic fuel injection and how does it compare with the mechanical one?

Soumitra Bhattacharya: We do not give any market share, please, I think we have mentioned that earlier also. Bosch is a strong player in the automotive market both in gasoline and diesel, but we do not give market shares.

Ashish Nigam: Could you share your breakup, I remember earlier you used to share the breakup between diesel and gasoline, if you can share the breakup now please?

Soumitra Bhattacharya: I can give you an indication, we do not give exact numbers earlier. Diesel is dominant and out of the 10,000 crores, you can take around 60% or so and gasoline is lower than that because we entered later and is far lower but growing at a very fast rate.

Ashish Nigam: Within the diesel, the share of PVs and CVs would you be sharing that please?

Soumitra Bhattacharya: No, we do not give that breakup, please.

Ashish Nigam: Just wanted your thoughts on what happens with diesel PVs going in to BS-VI, there could be a cost increase, so how are you all seeing that business?

Soumitra Bhattacharya: It is a very generic question for the industry. The industry just like it had to go to BS-IV, the industry will have to go to BS-VI on April 1, 2020, so the industry is trying to cope up to see based on the higher content including the EGT, how it can optimize and how it can keep itself affordable. The fact is true with higher content, diesel for BS-VI will be costlier as compared to the past, but I think Indian industry including the automotive component supplies including Bosch, we have always found innovative affordable solutions in optimal manner, so I think the industry will find its way, but this roadmap is a given and people will use vehicles including heavy commercial vehicles and light commercial vehicles and people will buy BS-VI vehicles.

Ashish Nigam: I just wanted to even get a broad, some of the longer-term question with this aggressive plan on EVs that the government also has let alone trend towards it, the base disruption is actually happening in engine which could be replaced, which you are a big supplier of, so how are you seeing this over the next eight-10 years, what can really happen to that part of your business?

Soumitra Bhattacharya: We in Bosch are very well prepared because our parent Bosch GMBH is 73 billion, the power train out of this €73 billion is €20 billion, it is about 5,20,000 crores and if you take €20 billion, you are talking of about anywhere between 1,40,000 to 1,45,000 crores, so it is a very, very big division. Second, the power train divisions have been working not today, but for quite some time and Bosch has been working on hybrid and electrification. Third, the advanced countries is likely to have electrification coming in earlier as compared to countries like India, and fourth, the rate at which electrification would come is greatly dependent on the battery and that would also mean the evolution as well as or a breakthrough in the battery and the battery is then determined by parameters like the weight of the battery, the cost of the battery, the safety of the battery at how fast the battery cells can close down and longevity of how long a car can go. I think there are many parameters. If we have a disruption worldwide, this will also affect India. Lastly, in the last few weeks, the government has issued a series of discussions including statements in the public forum on electrification including the involvement of PSUs in electrification. I think the second part of India, we have to watch and wait, it is too early, it has just been a couple of weeks since the government has announced and it is likely that electrification in India will follow after the advanced countries and very important for India is charging points, affordability which currently is a very big gap. To summarize, the ICE or the Internal Combustion Engine is there to stay for quite some while. Diesel percentage while reducing will still be quite a high weightage in the ICE and BS-VI allows diesel vehicles through its engines and emission norms to be extremely clean and non-polluting, so we do expect in India this electrification will come. GST has been negative towards hybrids, you could see the rates and we will watch and wait how things happen and Bosch is very well prepared because our parent has been doing work in these areas for a long time.

Ashish Nigam: Just lastly on BS-VI besides the fuel injection which is also going to come in for two wheelers, is there anything we are supplying significantly in terms of after-treatment or planning to enter?

Jan Oliver Roehrl: The after-treatment system for BS-VI car is as you are for sure aware let us say an overall chemistry plant meanwhile, that is starting with the DOC or NSC and you will have the diesel particle filter and then depending upon the NOx, a passive or even active SCR. Whatever is related to these catalysts, we are not in the manufacturing or selling of these catalysts. That is also one of the reason why it is always difficult and that is why we do not do this to give a market share because always the question, what is the market that you are looking at for BS-VI power train engine, but beyond that we are of course a major supplier for any kind of sensors. This is starting with lambda sensors by the way as well for gasoline, BS-IV or BS-VI engine well required. We supply NOx sensors and we as well supply differential pressure sensors just to give one more example that is giving a feedback on the loading of these particle filter. We are very active actually in the active SCR, so we are supplying here so-called Diesel Control Units and supply modules means the pumping

module for the urea and finally very important, the dosing system that is giving this spray of the urea into the SCR.

Ashish Nigam: Going into BS-VI, there will be a shift in two wheelers from carburetor to fuel injection is what we are hearing and just how deeply penetrated are we in the two wheeler space and with this shift from carburetor to fuel injection will our presence in two wheelers, are we looking to increase this significantly?

Jan Oliver Roehrl: Yes, absolutely, so you touched a point which is related to our gasoline power train system solutions that we are offering here to all customers, Indian OEMs as well as to the global OEMs and as we can let us say rely here on the system knowledge, but also on component knowledge and on component itself coming out of the pass-car area, we are in deep discussions with our customer in order to explore that market segment by April 2020.

Ashish Nigam: On a related note, some vendors have developed an e-carburetor, an electronic carburetor, is that a good solution to meet the norms or will it have to shift to fuel injection?

Jan Oliver Roehrl: Our view is that the most suitable way is to take the so-called engine management system, which is a fuel injection equipment, so electronically controlled.

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

Sonal Gupta: If you look at the EBIT breakup for this quarter, we have 5 billion from automotive and 1 billion from others which is a very large number compared to what we have seen like in the last at least seven-eight quarters, so I just wanted to understand that is this a one-off sort of thing on the non-auto side?

Soumitra Bhattacharya: Can you refer to the number that you are talking so that we know which number you are talking about?

Sonal Gupta: I am referring to 1,005, this is ...

Soumitra Bhattacharya: This has come from beyond mobility area and this turnover has mainly come from our energy area as well as our security area, so both have been doing pretty well in this quarter, so that is where it comes from.

Sonal Gupta: In terms of the segment results, when we look at it, there is a large number in India, it is much larger than what we have seen historically, so I just wanted to understand that if there is some related to some sort of a project completion and that is why we have such a big number in the segment results?

Soumitra Bhattacharya: Yes, I was saying that the BEBS is the solar area and we did have a quite a few, you have to break up the answer into two parts. One part is that we are having a over proportionate growth in our BEBS areas which means the solar area as well as on our security area and second it is do with aspects that on completion of projects or over proportionate growth as also third element, we have been making in our main campus big facilities which we are giving on rental to our sister companies, that means the Bosch Group in India, but not Bosch Limited, so it is a combination of higher turnover from our non-mobility business, project completion as well as rental income from the new premises which we have given to our sister company.

Sonal Gupta: Would you be able to elaborate how much this is sustainable thing?

Soumitra Bhattacharya: You did the breakup, but you can say part of it is sustainable. For example, I gave you three parts, the first part is on rental that is going to sustainable. The second part is on the over proportionate increase on our non-mobility area that is going to be sustainable and the third part is project closing, that is not sustainable that is one time, so it is a combination of three parts.

Sonal Gupta: In terms of on the technology side, we have been putting focus on gasoline direct injection systems also, so just wanted to understand, are we supplying for Baleno RS, would you be able to share something and what is the sort of traction that we are seeing with customers on the gasoline direct injection side really speaking?

Soumitra Bhattacharya: We do not give customer name wise, you can check out from public domain knowledge about it, please, but if you are asking are we working closely with Maruti Suzuki, answer is yes, very, very closely and we do give a lot of solutions including all the new launches that you see, you will see a lot of Bosch in it, but we do not give you now model by model and what are the products inside, we do not do that.

Sonal Gupta: Just on the CAPEX for this year, would you be able to guide on what sort of CAPEX did we do in FY17 and what is the expectation for FY18?

Soumitra Bhattacharya: We did give you the indication, I think it was 550 crores and I had also indicated to you that Bosch Limited as well as the Bosch Group to India. To give you a perspective, Bosch Group in India in the last four years has done anywhere between 650 crores to 800 crores every year, majority of it has come from Bosch Limited. In one year, out of these four years, we even touched 1,000 crores. Now, we are going to spend a similar sort of CAPEX figures for the next two to three years for sure, and this year that means 2017-18, we plan around 550 crores and 550 crores for Bosch Limited. It is a combination for our plants, for our corporate where we are making our head office into a tech center, the 70 acres we have in Bangalore and also we invest a lot to keep our facilities up-to-date. It is a new campus, smart campus being built, the plants Nashik and Bidadi are having investments and we will spend also money on R&D.

Sonal Gupta: Lastly again on the electrification part, like you said Bosch parent is sort of clearly a strong player and they are working strongly on the electrification side, but given that this company's focus on Bosch Limited has been more just a engine system supplier in India, so do we see anything coming through in the next few years or which you would be on this side as well?

Soumitra Bhattacharya: Right now, we are not wanting to talk about specifics on electrification in relation to Bosch in India. The important part for us to know is that our parent is very well prepared and we are very carefully watching and looking at the market. Since we have a parent who is extremely well prepared and since we have Bosch Limited with 65 years of experience, including in the power train, it will not be a great difficulty for us to switch into. Having said that, we do already work in India on two-wheeler on electrification, so we are present already on work on that. We see this as an opportunity and at a point of time when this matter fructifies, we will let you know on how we are handling and what we are doing on this area.

Moderator: Thank you. The next question is from the line of Ajit Motwani from Bharti AXA Life Insurance. Please go ahead.

Ajit Motwani: This question is on the employee cost, for the fourth quarter, the employee cost to the percentage of sales is 11% versus 13% for full year, you said that there were from one-off in terms of one time provisions reversal and lower discount for gratuity, would you be able to quantify that how much of this 200 BPS reduction was because of this one-time cost under the employee cost head?

Soumitra Bhattacharya: There are two factors to it, the first part as you rightly said that in the employee cost reduction, we do have some one point cost where I mentioned very clearly that we have done some reversals because Bosch has a very ethical, value-based, and conservative company, we do make provisions at the right time of what we believe is right and in case they are excess, we ensure that the reversal happens after the event, so we have done that. The second part is we are also keeping a tight control over productivity as well as employee cost, which means we are trying to look at optimization on headcount, we have not done any layoffs, we at times do not fill in when not required for natural attritions. Our attrition rates are pretty low at lower single digit and we are trying to manage, so it is a combination of two factors, one reversal for a one-time provision and second we have improved on our efficiencies and on our employee cost.

Ajit Motwani: A part of it is sustainable because of productivity and headcount reduction, but I just want to know the number which is let us say one-off in nature, is it like large part of this reduction is related to one-off and if not it is okay?

Soumitra Bhattacharya: I will give you a small example. Employee cost when you look at the quarter and you rightly said the figure of the previous year was 3,589 and this quarter it is 2,826, now that is a 21% dip. Now look at the year, you see the employee cost last year was 12.8% of turnover and this year it is 12.2%, so this gives you an indication on sustainability as well as it gives you an indication on productivity.

- Ajit Motwani:** Similarly on other costs, they are substantially lower, so is there any one-off which we should look at it?
- Soumitra Bhattacharya:** Again for if you look at the quarter-to-quarter results, the other expenses we have had a higher increase, the percentage increases for the quarter-on-quarter 13.6%, but if you look at the year, against last year of 15.2%, it is 16.6, so these are related to individual areas of expenditure. Right now, we are having some increased expenses as I mentioned earlier on tooling, on manufacturing expenses, so these sort of costs do happen depending on the change and tenure of the market position especially on transitions, and for example, right now moving from one emission norm to the other, so those also will stabilize overtime.
- Moderator:** Thank you. The next question is from the line of Basudeb Banerjee from Antique Finance. Please go ahead.
- Basudeb Banerjee:** Thanks for taking my question, couple of questions. One, Sir, as you said mobility business for the full year was up close to 6% and you are cautiously optimistic for the next fiscal, so as a leading supplier for the truck industry, if you can give your thought process, how do you see the growth of the commercial vehicle industry in this coming fiscal with dynamics like GST coming in per se?
- Soumitra Bhattacharya:** You have asked a question on the commercial vehicle sector, you must understand that any growth which is looked at quarter should be also looked at the trend and the history, so if you take heavy commercial vehicles, India had 3,77,000 heavy commercial vehicles in 2011. In 2016, we touched 3,71,000, so any intermediate quarter-to-quarter or yearly growth rate must be seen in this context that the peak of 2011 has been reached again in 2016. First, we have just come out of the trough and reached what we have peaked in 2011.
- Basudeb Banerjee:** Sir, the blended tonnage in 2011 and 2016 are much different, so on a BTkm basis, things would be much better than 2011?
- Soumitra Bhattacharya:** Agreed the tonnage has improved, but we also have to look at the total number of vehicles, so we have to look at both, I would say it has been a muted growth on heavy commercial vehicles and I would say based on the increased tonnage and the current demand, we expect a higher growth than the past but still relatively muted. Having said that, the overall automotive market trend, the AMP for 2016 to 2024 indicates that we will grow at a CAGR of 5% against a CAGR of 1% between 2012 and 2016, so we have to wait and watch whether in reality this 5% will happen as stated in the AMP.
- Basudeb Banerjee:** This you are saying in terms of volume?
- Soumitra Bhattacharya:** This is the volume element.

- Basudeb Banerjee:** Basically, transition to BS-IV and BS-VI will add on to the realization over the volume part?
- Soumitra Bhattacharya:** Yes, the volume plays an important role, the tonnage plays an important role and as we mentioned before, other than a few months of pre-buy effect, BS-III to BS-IV or BS-IV to BS-VI, the market will determine the volume and the sales and not other parameters like pre-buy or rating, so the market forces will determine it.
- Basudeb Banerjee:** Second question, Sir, likewise as you elaborated on the staff cost one-off break up, if you can again explain that of the raw material cost this quarter, because it is almost 450 basis points lower than the normal level, so you highlighted that at the initial part of the call, but if you can again break it up in details?
- Soumitra Bhattacharya:** As I said, you have to look at this for the year. There have been some one-time impacts for this very big change of the 48.9% of material cost coming down to 44.8% and there have been a few elements which are of sustainable nature. Now if you look at the year figures, last year we had a 48.7% and this year at 2016-17, we had 48.3, so what is the major messages, first major message is we are keeping control on the material cost. Second is, we take long term contracts for our commodity prices. Third is overall commodity prices will affect anyone, in our case it is aluminium and steel, and fourth is, there could be effects like FOREX impact, for example, we have this benefit this time of the FOREX impact, there could be a price impact benefit, there could be a mixed impact benefit, so overall message is, Bosch is keeping tight control over the material cost. We focus on ensuring that there is optimal localization and we try to do a right mix between locally produced goods and traded goods.
- Basudeb Banerjee:** Can you quantify or give some direction of what was the quantum of exchange rate benefit and inventory gain this quarter?
- Soumitra Bhattacharya:** We are not quantifying those individually, but as I said the 400 basis points which you mentioned or 450 basis points, this partly is sustainable and partly is one time.
- Basudeb Banerjee:** If you can give the partly means what 200 BPS, 300?
- Soumitra Bhattacharya:** I am not now going to give 200 and 300, I think partly you have to just understand.
- Moderator:** Thank you. The next question is from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.
- Srinath Krishnan:** You mentioned that dominant portion of revenue is diesel, is it the mobility piece or of the total business, like 60% of the mobility diesel of the total business?
- Soumitra Bhattacharya:** It is 60% of total Bosch revenue.

- Srinath Krishnan:** About 20% is non-mobility at this point of time, and in CY14, you mentioned that gasoline is about 5%, so would it be less than 10% at this point of time then?
- Soumitra Bhattacharya:** It is around that area and may be much and even more but growing a very fast rate.
- Moderator:** Thank you. The next question is from the line of Lakshmi Narayanan from Catamaran. Please go ahead.
- Lakshmi Narayanan:** Sir, there are two questions which I have, one on what is the trend that is showing up for direct injection system and couple of years back on the incremental car sales it is only a fraction, so how is it trending. The second is that as the vehicle engine gets downsized, there is an increasing relevance of turbocharging even for gasoline engines as well as for diesel engines, how is Bosch thinking about it and do you intend to actually make turbochargers through the listed entity in India, that is the second question. The third question is what is your global market share in the two-wheeler fuel injection system, and the last question is related to your Gangaikondan revenues, so what has been the year-on-year increase in terms of revenue from Gangaikondan?
- Jan Oliver Roehrl:** Your question on the turbocharger, your observation is completely right, by the way more for commercial vehicle on the diesel side that the turbocharger is playing a major role and turbocharger for diesel and gasoline, they are facing due to the fact that the exhaust gas temperature is completely different, so diesel it is generated lower and in gasoline it is generated higher, which is one of points why diesel engine is far more efficient. I just mentioned that to let you know that on the PCI and the commercial vehicle side, turbocharger is playing a significant role, but they are big differences in that, which means that here in India, we will consult our customers and provide control mechanisms and write software to pilot turbocharger, but we are not in the business of turbochargers.
- Lakshmi Narayanan:** I get sometimes back you had taken a strategic stake in Mahle, it was called as Bosch Mahle Turbochargers, two years back or so?
- Jan Oliver Roehrl:** Currently, we are not making use out of Bosch Mahle Turbo Systems, because again as I said here the variety that the landscape, specifically in India and here it is just an emerging market, its phasing is not suiting currently as we see it the product landscape from Bosch Mahle Turbo Systems.
- Soumitra Bhattacharya:** Question on Gangaikondan, I would only say the plant which we opened two years ago is running very well at a very high efficiency level. We do have both localized as well as traded products there and we do array of sensors and hard products and components for gasoline market, so beyond that I cannot indicate numbers, but it is doing very well and we are growing at a very, very fast rate.

- Lakshmi Narayanan:** The other two questions, one on the direct injection and the global market share in fuel injection for two wheelers?
- Jan Oliver Roehrl:** On the direct injection for two wheelers, there is somehow in line with the question that I tried to answer before was regard to an electronic carburetor, the direct injection for two wheeler we see as the most promising solutions in terms of emissions but also let us say customer experience at the end, which includes fun to drive and other things for the market overall and also here in India, so we are very firm on that and following that path very closely together with our customers.
- Lakshmi Narayanan:** I asked for the global market share for fuel injection system in two wheelers, what is Bosch's market share and how large...
- Soumitra Bhattacharya:** We do not indicate market shares, please, but you can just know that we are very pretty strong both in gasoline and diesel and in India diesel has a long history and gasoline we are catching up very strongly, so we do not indicate market shares, but doing well.
- Lakshmi Narayanan:** The direct injection I mean, the port fuel injection as far as the gasoline direct injection, because there is a movement towards direct injection from the port fuel injection, that is the trend I was looking for, how is it trending, are cars increasingly getting into direct injection or?
- Jan Oliver Roehrl:** I mean you just mentioned another technical possibility to fire an ICE, diesel, direct injection, port fuel injection and also DI, and also DI is playing a role in India, so we are also in contact with our customers about solutions for DI engines and have the right technology at hand as we are in that specific business since a very long time with our parent company.
- Moderator:** Thank you. We will take the last question from the line of Nishant Vass from ICICI Securities. Please go ahead.
- Nishant Vass:** Sir, I had two kind of clarifications, one we were recently showcased a strategy by one of your largest customer on the India Business Strategy in which they highlighted a significant structure towards the supplier base in which a lot of cost reduction exercises will be undertaken, so are we also under that structure in terms of, the question comes from the fact that as we are migrating from BS-III to BS-VI, a significant content increase in terms of pricing is expected, so are customers highlighting this and are they focusing on significant cost reduction exercises from major suppliers like you?
- Soumitra Bhattacharya:** I think this is a generic question.
- Nishant Vass:** Sir, they had recently given a business strategy presentation by Mr. Guenter Butschek in which they laid out a major plan towards rationalizing vendor base by 50%, so in which he has highlighted significant cost reduction exercise from the vendor base, so considering you are a major vendor in the whole value chain, so the question comes from that side?

Soumitra Bhattacharya: It is not just TATA Motors or Maruti Suzuki or any other company, the market forces in terms of both OEMs as well as Tier-1 apply, in case of Bosch, we have always positioned ourselves with our vendors including TATA Motors who is a very valued customer, that we give holistic solutions, so it is not price down for a particular product or a particular service. We are accompanying our valued customers and OEMs both in the BS-III to BS-IV journey as well as from the very importantly for the BS-IV to the BS-VI journey giving a one-stop shop holistic business solution including application and R&D. I think the question perhaps can be asked in relation to vendors who are providing products, which is not the case in Bosch and we give value-added services and they are affordable and they are innovative and also solution oriented in a holistic manner, so for Bosch it is slightly different.

Nishant Vass: Second question is again a clarification per se because and I am sorry for harping on the electrification again, but you highlighted that you have been doing some electrification work on the two wheeler side, so I just wanted to understand in terms of the share of the scope of work, what kind of portion would be in the listed entity and what would be out of the listed in the group entities?

Soumitra Bhattacharya: We are not discussing this right now, I also mentioned to you that at the appropriate time, we will let you know, and this is an important topic and the appropriate time, we will let you know how we handled it. I only mentioned the key points that Bosch is very well prepared for the matter, electrification both our parent, and in India, we have done some little work and we will continue to do. We have prepared in relation to how the Indian government is and how the Indian market moves.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Jayaraj for his 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 Good Day.

Moderator: Thank you. Ladies and Gentlemen, on behalf of B&K Securities, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.

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