



“Bosch Limited Q2 FY-20 Post Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Bosch Limited Q2 FY20 Post Results Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant 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 India Private Limited. Thank you and over to you.

Annamalai Jayaraj: Good evening everyone. On behalf of B&K Securities, welcome to 2Q FY19-20 Post Result conference call of Bosch Limited. We have with us today Mr. Soumitra Bhattacharya – Managing Director; Mr. Jan Oliver Röhl – Executive Director & Chief Technical Officer; and Mr. S. C. Srinivasan – CFO & Whole-Time-Director.

I would now handover the call to Mr. Soumitra Bhattacharya for his opening remarks to be followed by question-and-answer session. Over to you, sir.

Soumitra Bhattacharya: Thank you, Mr. Jayaraj. Thank you, Steven and a big thank you to B&K Securities.

A very good evening to all the participants in the con call and thank you for being a part of this call. I would like to start with a brief about the macroeconomic and policy highlights for the quarter affecting our business.

The global economy has continued to lose traction in both advanced and emerging market economies weakening further back down by escalating credit tensions as well as rising geopolitical uncertainties. RBI has lowered its GDP growth forecast for financial year 20 by a substantial 80BPS from 6.9% in its August 19 policy to 6.1% citing persistent weak demand conditions, muted industrial outlook, weak exports growth owing to slowing global growth.

The government has responded to the weakness in the growth momentum with various measures including the recent lowering of the corporate tax rates. While the recent measures announced by the government are likely to revive sentiment and spur private investment activity albeit with the lag the continuing consumption slowdown warrants intensified efforts to restore the growth momentum.

Now coming to the automotive industry affordability issues, liquidity crunch, weak consumer sentiment and regulatory changes are continuing to weigh demand during the quarter. Retail demand deteriorated and worsened significantly in the last quarter with commercial vehicle sales down by 35%. Slowdown initially started with business/SME buyers and now even salaried class has started to postpone purchasing in a major way.

This coupled with weaker sentiment and confusion around BS-VI launches has led to a sharper decline in passenger car sales over the last two to three months.

In our view the Government of India intervention is required for this sector by implementing policies for safer roads and better environment. Example, implementation of scrappage policy can be a very effective way to curb pollution as also be an additional booster for the sector. I must say that scrappage policy comes with a rider that it must come with x number of years. For example colleagues if it is 20 years, it will have no impact. If it is 12 to 15 years, it will have some impact.

During the quarter overall automotive market production decreased by 19.2%. The HCV segment declined by 58.1%. Demand is mainly impacted by the NBFC liquidity crisis. Implementation of the axle load norms drop in freight demand. Passenger car segment declined by 19.6% again due to affordability issues, liquidity crunch, weak consumer sentiment and regulatory confusion is continuing to pull down the demand.

Tractors show a decline of 11.5% due to lower demand from farmers damage to standing crop from floods in several states which has resulted in reduction of agricultural GDP. LCV segment declined by 25.1% due to weak rural and urban consumption and stringent lending norms. Among the other market segments, three wheeler segment reduced by 5.9%.

Amidst all of this the automotive performance we now look into the performance of our company Bosch Limited for the quarter. Total revenue from operations is Rs. 23,127 million which is a reduction of 26.9% as compared to the corresponding period of the previous year. Mobility business sector declined by approximately 31% owing to various factors affecting the auto sector mentioned earlier.

With the overall downturn, business beyond mobility solutions also show a reduction of 9.5%. The domestic sales for this quarter declined by approximately 30%. Thereof mobility solutions by 33.4% whereas business beyond mobility solutions decreased by 8.3%. Exports sales show a minor increase of 2.3% majorly resulting from mobility business sector which shows an increase of 6.2%. Within mobility solutions powertrain systems show a decline of 38.5%. Two wheeler business shows a growth of 31% but on a relatively lower base during this period.

For the six months period ended September 2019 revenue from operations decreased by 20.2%. The mobility business sector declined by 21.6%, business beyond mobility solution declined by 11.6%.

Material cost as a percentage of revenue from operations has decreased to 55.4% in July-September 2019 as compared to 56.7% in July-September 2018.

The decrease is mainly contributed by various cost reduction measures as well as Forex recovery. A similar trend is seen for the six months period ending September 2019 which witnessed decline from 55.5% to 54.9%. Employee cost has marginally declined to Rs. 3,349 million for July-September 2019 from Rs. 3,355 million in July-September 2018. The reduction is mainly contributed by productivity and reduction in production incentives to offset the impact of inflation and general down trend in the industry.

For the six months period ending September 2019 the employee cost stood at Rs. 6,873 million as compared to Rs. 6,816 million for the same period in 2018 showing a marginal increase of 0.8% mainly due to annual salary increment majorly compensated by productivity measures. Depreciation has declined by 12.2% in July-September 2019 as against July-September 2018 due to reduction in investments in the current quarter.

For six months period ending September 2019 there has been a decline of 16.1% due to the same reason. Other expenses for the quarter July to September 2019 is Rs. 3,596 million as compared to Rs. 4,385 million for July-September 2018. This is a decline of 18% which is in line with total revenue decrease and other budgetary control measures initiated by the company. For the six months period ended September 2019 other expenses have decreased by 15.4% majorly on account of lower turnover and cost reduction measures.

Operating profit stood at Rs. 2,544 million for July-September 2019 as compared to Rs. 5,029 million for July to September 2018 mainly resulting from lower turnover. For the six months period ended September 2019 operating profit has also decreased by approximately 36%.

Other income has increased to Rs. 1,669 million in the quarter July to September 2019 from Rs. 1,395 million in July to September 2018 because of higher M2M gain on marketable securities.

For the six months period ending September 2019 other income has increased to Rs. 2,638 million from Rs. 2,542 million for April to September 2018.

The company is undergoing a major transformation with regard to structural and cyclical changes and emerging opportunities in the electro mobility and mobility solutions segment. To cope with this paradigm shift the company has initiated restructuring within the organization by introducing early voluntary retirement that means EVR schemes.

Manpower adjustments will be done in an ethical and socially acceptable manner with focused approach towards reskilling and redeployment of potential talent. An additional provision of Rs. 1,302 million has been created towards these various transformational projects and has been shown as an exceptional item for the quarter ended September 2019. For the quarter July to September 2019 the company posted a profit before tax of Rs. 4,213 million before exceptional items as compared to Rs. 6,424 million in July-September 2018 which is a decline of approximately 34%.

As a percentage of revenue from operations, PBT stood at 18.2% in July-September 2019 as compared to 20.3% in July-September 2018. Profit before tax after exceptional items stood at Rs. 2,911 million which is 12.6% of revenue from operations. With the recent amendments to the corporate tax rate the company has adopted the concessional rate of 22% of tax (plus applicable surcharge and CESS). Though the company is able to see considerable reduction in its current tax for the quarter, but due to this the company had to consider a onetime transitional impact of Rs. 1,448 million arising out of revaluation of its net deferred tax asset.

Profit after tax without onetime effect of deferred tax asset (net) stands at Rs. 2,478 million and including this it comes down to Rs. 1,029 million. For the six months period ended September 2019 profit before tax before exceptional item has decreased by 28% and stood at 18.3% of revenue from operations against 20.3% during the previous year.

Profit before tax after exceptional item stood at Rs. 7,158 million which is a decrease of 44% as compared to April-September 2018. Profit after tax without onetime effect of deferred tax asset again net stands at Rs. 5,293 million with effect it is Rs. 3,845 million. Further to the approval of the shareholders the company has transferred by way of sale of packaging division to the standalone subsidiary of Bosch Group. The sales is executed with effect from 1 October 2019 accordingly the results of packaging division are shown under discontinuing operations and hence does not form part of the company performance for the quarter mentioned above.

With our commitment to bring new cutting-edge technologies to the Indian markets, we are proud to participate with the OEMs for electrification, especially in the two wheeler and three wheeler segments. As seen in the recent Bajaj Chetak e-Scooter launch we as Bosch Limited have contributed substantially in providing critical electro-mobility and connectivity solutions to the OEMs. This marks Bosch's entry into the mainstream of the electro-mobility space and paves the way for future projects in the EV space.

Finally about the outlook. In the last few months with the severe slowdown seen in the automotive market there have been production cuts and block closures at all major OEMs. In the festive season, with new launches and major discounts to ease out the excess inventory a small spike in the retail sales has been visible and seen but this does not indicate a quick recovery in the overall scenario.

Colleagues, I would like to give you an example, just yesterday the results came out. After the Diwali sales, the October sales have been compared to last year like-to-like resulting minus 2%. Please understand that this has to be read that this minus 2% has been done with very high levels of discounts.

Furthermore with definitive deadline in the place of BS6 implementation the OEMs will be looking forward to exhausting their complete inventory and not carrying forward the inventory

of obsolete technologies. Thus, FY2019-2020 which started off with uncertainty due to general election and ends with BS4 to BS6 change looks to be of a negative growth in our view.

Considering these factors we have a critical outlook for FY2019-2020 however in the long term we remain positive about the growth potential of the Indian mobility market and position ourselves as an integrated solution provider for the “Mobility of the Future” and continue to invest in future technologies like electro-mobility.

Before I end, I would just like to make a short point clear in relation to profit after tax. We have defined that Bosch Limited has registered a 14.8% on profit after tax from continuing operations.

By design when we say 14.8%, we have excluded two elements of the exceptional item. The first being our EVR and we are doing the EVR as an ethical carrying company where we are doing any changes with a socially acceptable manner and the second which we have already talked about the deferred tax assets which is a onetime because you chosen to take that 22% route which will improve our cash flow for the future but taking this hit.

So with this, I come to an end to the management summary and thank you for your patient listening and look forward to your questions please.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Pramod Amte from CGS-CIMB. Please go ahead.

Pramod Amte: Two questions. One with regard to the quarterly results, there seems to be a substantial increase in stocks of almost around Rs. 200 odd crores which is 8% of sales. Can you give more color what was the reason to build up such large increase in stock in the quarter?

Soumitra Bhattacharya: I think Pramod, you are referring to BS4 inventory?

Pramod Amte: I am looking at the line item in the expenses after the raw material there is a change in stocks?

Soumitra Bhattacharya: Yes, so you need to have the BS4 inventory to ensure that all the customers are serviced, Pramod. And we are in dialogue with our customers for (a) not only supplying them the relevant BS4 inventory required but also for the off take based on their commitments.

Pramod Amte: And you hope to reverse that as the March year ending comes in as they off take the same?

Soumitra Bhattacharya: Yes Pramod, this what you are asking is going to be applicable for the entire industry because all of us note that there is a major shift between BS4 to BS6.

Pramod Amte: And the second one is with regard to this packaging business separation. We have seen in last couple of years some of the divisions being separated to sell off. Wanted to get on a policy basis



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is there any direction in terms coming from the parent or from you that what businesses you want to keep and what is the threshold to hive-off any of the businesses and the reason for the same so that some direction in terms of non-automotive business what proportion it can be three years down the line if such disinvestments continue to happen from your end?

Soumitra Bhattacharya: So Pramod, let me give you a clear answer first from the global side. Just like we had discontinuance of our starter and generator business which constituted 10% of the turnover but 1% of the profit and it was a global decision similar to the starter and generator. This is a global decision across the world by Bosch, our parent. And luckily for us packaging constituted a very small percentage of the turnover and what was at a breakeven margin with no impact on profitability.

So we are just following a Bosch global practice which is an extremely well thought of deeply reflective on whether it make sense to continue and we have made 100% sale to a Bosch company outside Bosch Limited and later by the end of the year it will get transferred to the new seller.

Moderator: Thank you. The next question is from the line of Siddhart Bera from Nomura Securities. Please go ahead.

Siddhart Bera: Sir, my first question is on this BS6 cost increase just wanted to check what will be the cost increase for an LCV or a three wheeler post BS6 and whether there can be a shift from LCV to three wheeler if the cost increase is lower? If you can highlight something on this?

Soumitra Bhattacharya: Siddhart, we do not give the defined cost increases, but I can give you a generic answer on the matter. We have clearly seen that diesel is a very valid proposition even after BS4 to BS6 and including, we from Bosch believe including for passenger cars and you will see that with utility vehicles and higher displacement CC diesel pass cars, and we believe the cutoff point is about 1.5 liter. We believe diesel will continue to play a very strong role in HCV, LCV while slowly on the LCV front electrification will slowly creep in. So short point we are great believers as Bosch in summary of all technologies we are technology neutral agnostic while we believe our parent as well as India has continued to focus on IC and made it optimal and including reaching at road condition level at RT level meeting levels far below the emission standard statutorily recreated.

Siddhart Bera: So basically what I was trying to get at is that SUV share if you see diesel will be quite high probably close to 75% to 80% in that segment. So ideally after this do you expect that that share will largely be maintained, or we might see some drop in that?

Soumitra Bhattacharya: Siddhart, as you rightly said SUVs, multi-utility vehicles, we have a situation where Bosch has been very strong player. The positive news is the Indian market and the Indian consumer is more and more liking SUVs, the Indian SUVs, you cannot compare with global SUVs. So we believe

that is a good opportunity. While we accept that diesel in the compact car with small displacements that is a challenge because of compact car has a pretty low base in terms of base price and therefore the delta hits hard on the BS6 with the EGT.

Siddhart Bera: Sir, my last question is on the electric side you indicated that you are supplying some of the components to Bajaj Electrics Scooter so if you can just broadly indicate what are these components and if possible, what will be the value of these components if you can?

Soumitra Bhattacharya: Siddhart, I appreciate your question and thank you for complementing Bosch. I had mentioned to you earlier that Bosch is at the SOP level both at two-wheeler and three-wheeler electrification and this is one case in point where we have to respect our OEMs and since Bajaj has launched the Chetak, we are now able to declare that we have holistically participated in the e-scooter Bajaj Chetak. Having said that we are pretty strong also in the three wheeler and we hope in the future we can make the same declaration. We cannot indicate Siddhart values and indications. We have never done it and also for the future we will not do it.

Siddhart Bera: Okay but the component or which part also we would not be able to share?

Soumitra Bhattacharya: We do not indicate Siddhart over time you will get to see it because it will get split. But as I mentioned the word holistic is pretty important.

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

Sonal Gupta: Just a couple of things. One was again continuing with the diesel question you said that 1.5 is the sort of cut off where diesel probably start making sense and above. But like I am just alluding not really specific to the company but like Audi stated that they may not also have any diesel starting on April 1 they may look at it later on and we are seeing like even for other people as to some of the other OEMs are saying that even at 1.5 liter level you could see a 50:50 sort of a split between diesel and petrol. So how much of your business is at risk really on the passenger diesel side because of the change really speaking? I mean could you give us some sense on that?

Soumitra Bhattacharya: So I will try to give you a brief reply, Sonal because it is a pretty complex and deep question. The first aspect is on diesel and pass car and combination the market will determine. We as Bosch are absolutely including Bosch Global and India neutral agnostic technology players. We are in diesel, we are in gasoline and do not forget Bosch our parent is very strong in electro-mobility besides of course we have CNG.

So that is the first thing that you have to remember. Second, we believe when the facts are looked at what I indicated that holds good. However I cannot comment on sentiment and perception. So somebody is we are going to play as strongly in gasoline I told you already we acquired a lot of market share though we entered gasoline later and while in diesel please remember that pass car



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is an important component but we have components like HCV, LCV, tractors, three wheelers, and other areas including off highway where we are pretty strong. So we do see a hit in compact cars but we do see also opportunities as well.

Sonal Gupta:

And sir, just another question again on the electro-mobility side like on the two-wheeler, three-wheeler side I mean it is a great I mean we understand that you are on the electro-mobility you will be providing comprehensive solutions on two wheelers and three-wheelers but at the same time I mean, given the high volume as well as the price points in the segment and potentially the price point that you are competing against potentially in I mean like on the ICE side what I am trying to say is that we would likely see a lot of competition from other players I mean like on the motors and all those things I mean these could really be getting commoditized.

So just to get a sense which are the components where you think that there is a sort of IP edge that Bosch can provide which is generally not available in the market are there any such components that you can talk about?

Soumitra Bhattacharya:

So Sonal, I would like to just demystify the question that you have mentioned. The first point will be there will be multiple players in the market. But we believe that in Bosch we provide holistic solutions versus selling components. So that could be a differentiator. Second, we have always respected competition whether large or small, whether organized sector or non-organized. And third, our objective will be like we have done in the past to localize and give affordable innovative holistic solutions which example we have done for Bajaj Chetak. So that is our approach. And this you will see over time it would not happen just tomorrow or day after tomorrow.

Moderator:

Thank you. The next question is from the line of Priyaranjan from Antique Stock Broking. Please go ahead.

Priyaranjan:

One is on the two wheeler opportunity which will be getting created in next year with the BS6 with EFI engines etcetera. So can you throw some light on that and the second part is what percentage of petrol engine in the pass car you are seeing that probably you might have a better opportunity because of that option of GDI engine I mean any sense on market?

Soumitra Bhattacharya:

So I will just give a brief answer on this and request our Chief Technical Officer to give the details. We have had a very good growth on our gasoline business both on two-wheeler as we see it in terms of acquisition now which will get converted to sales as well as on the four wheeler. And this has already got for the four wheeler translated into our P&L. And we expect the same for the two wheeler also. Of course subject to how the market grows or de grows the but the share of the pie is good as compared to what the pie will happen nobody knows how blur the pie will be. GDI, I request our CTO to please give the answer. I think he has told it multiple times but he can again answer.

Jan-Oliver Röhl: Yes, look the good thing about Bosch as a company from the parent or here in India from Bosch Limited is that we are specifically to the ICE but finally to the whole power train be it on hybrid, be it fully electrified vehicle, systems supply on and the GDI plays an important role whether it is now on a pressure level of 250 bar or 350 bar and in the BS6 acquisition phase from 2017 onwards we were not only successful in acquiring business related to diesel of course but also related to GDI and finally it is a decision of the OEM how he wants to market that specific engine in what type of vehicle and then the decision of the consumer what he is choosing for because let us say everything that is adding complexity compared to a PFI and GDI is part of that has to pay back be it now were a fun to drive that is one element.

So the torque that you will appreciate also in the utility vehicle and on the effort that you are or the money you have to spent in the gasoline station. So it is a consumer's choice and the good part is that we can respond to these selections that the consumer is likely to take with BS6 in holistic manner

Priyaranjan: Yes, and another one is on the I mean Bosch is also participating in the turbo charger business I think globally. So I mean any sense on that to bring it into India and expand that market as well?

Jan-Oliver Röhl: So actually yes we had a joint venture for turbo chargers for diesel, gasoline and finally also on the way for commercial vehicles but on a global scale we left that business. The good part of that is that the whole system knowledge about this is of course still available and that pays completely out when we discussed with our customers system layout from the air pass and of course in the air pass to turbo charger plays a vital role be it for diesel or for gasoline engine on the combustion side on the fuel injection equipment that is coming along with that and on the after-treatment system side.

So we still benefit from this joint venture but we do not have these components anymore.

Priyaranjan: And just on the diesel side I mean there are two parts I mean one is probably in 50HP and above we will have in the tractor segment we will be going forward I mean next year we will have CRDI engine most probably. So how do we see the opportunity there and second part is on the normal diesel engine I mean say in pass cars say 1.5 liter and above which we are discussing I mean what kind of LNT, FCR, EGR route what is the optimal solution for the BS6?

Jan-Oliver Röhl: Okay this is your first question related to the off-highway business and they are specifically to the tractor market and you were referring on to the 1 October 2020 when the transform will be introduced. And here the common rail will play a role in the power range beyond 37KW and also here let us say the Indian OEMs they are already on their way because they have started to explore foreign markets for themselves and we were able to partner with them on the common rail side also as we partner with them on the conventional side. So the predominant power slabs or power range from 19KW to 30KW which still forward still remain completely is conventional business of the conventional fuel inject equipment.

So this is on the offside part. Your question on the passenger car side. There is not a single way leading to Rome but there are many ways leading to Rome. So whether it is an LNTM combined with an STPF whether it is an LNT with DPS and SCR active SCR system later on whether it is only in active SCR system this depends pretty much now on the overall system configuration whether we are in a passenger car segment or in light duty segment.

Soumitra Bhattacharya: Sonal, thank you for your question. I just want to add one common point for all of you. Whether it is diesel, gasoline, CNG, hybrid, electrification, pure EB whether it is services, solutions on mobility, whether it is for two-wheeler, three-wheeler or four-wheeler entire portfolio stays in Bosch Limited. I just want you to know this and including off highway as our CTO reminded me.

So please remember we have brought in this entire portfolio of electro-mobility under any form and manner for today and the future as well as the entire platform of mobility solutions and services in to Bosch Limited we had an option to do a separate legal entity or to put in any other legal entity by design we have brought it as a part of Bosch Limited.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: Couple of questions on the financial side. Can you please highlight what is the export growth for the quarter and on the spare side on the B2C business side what is the growth?

Soumitra Bhattacharya: So we have indicated it but I will request our CFO Srini Srinivasan to tell you.

S. C. Srinivasan: See the export opportunity if you look at it is always there and in the past we have always seen an opportunity for markets and especially when with the shift from BS4 to BS6 happening there will be markets where it will continue to take BS4 equipments and our focus will continue to remain a team has been formed to look to explore to other markets especially Africa and others. So yes, over the last one or two years overall export trajectory has been a bit low but that is an area for focus, and we expect that to improve as we go forward.

Ronak Sarda: And on the B2C business side?

S. C. Srinivasan: I mean we are traditionally a B2B player I mean we are not a B2C player but if you look at many of the new emerging businesses that we are talking about including aftermarket both from the solution side and services side the innovations and the opportunity will come out of the issues and the problems that are there in these phase. But we continue to remain a B2B player and that is where we partner with many of the OEMs and new emerging customers as well to create the opportunity around B2B2C.

Ronak Sarda: And sir, on the restructuring last quarter you narrated that the Rs. 82 crores provision was more anticipatory looking at the changes you are doing including the current quarter provision is that

the final number or it is still in evaluation and we expect something more to come or some write back happening here?

S. C. Srinivasan: So again with all the changes that are happening around us BS4, BS6, electro-mobility and others as Mr. Bhattacharya have just said we are a technology agnostic we have capability across all technology segments and hence we continue to evaluate in terms of our surplus capacity that are there. To what extent it will happen is something which we are continue to evaluate. There will be some level of restructuring and redeployment as well and that is why there will be provisions in the future as well for us to go through this phase of transformation.

I mean transformation is not only around restructuring we are also looking at cost optimization like zero based budgeting, zero based organization those projects are already in place to ensure that yes, from a profitability perspective as the shift happens we continue to be able to cut down and maintain our cost competitiveness.

Soumitra Bhattacharya: So Ronak, just to make a summary. It is very important for you to understand Bosch as a very ethical fared company including being extremely proactive in looking at structural changes, we started this transformation already two quarters before. And this transformation is not just about pay outs it is about a holistic transformation including rescaling, including redeployment and including looking at our whole organization structure. So this is something that we want to use this very tough period for the market to come out stronger in the short to mid run. It will not happen tomorrow but it will take a year or two, but we will come out far stronger.

Ronak Sarda: But sir, is it safe to assume that like at least 50% or more would be related to fixed assets impairment because of the shifts happening or is it much more diversified or broad based in that sense?

Soumitra Bhattacharya: Can you repeat your question in which area?

Ronak Sarda: Is it more related....

Soumitra Bhattacharya: Yes, it is across the board. As I said we said that is also EVR, it is also technical it is not necessarily impairment, but it is also taking care of transformation projects and other areas like ZBB, ZBO. So it is a combination of everything including EVR.

Moderator: Thank you. The next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.

Nishit Jalan: Sir, firstly I think in your opening remarks you were talking about October sales are down 2% despite higher discounts. I just missed that part. Can you elaborate on that?

Soumitra Bhattacharya: No Nishit, the point I referred to was I quoted the public domain information which has come out yesterday and today. It says that October sales in the market especially for pass-cars and the Diwali related sales have been minus 2% as compared to the like-to-like previous period. So I

am just quoting public domain information. I only added saying you must remember where till September there was a very deep and steep decline and degrowth. The October sales does not reflect the reality including for the next most likely couple of quarters because there has been very deep discounts given. So that is all I said.

Nishit Jalan: And sir, just one another question. Like you were highlighting in your opening remarks as well that affordability has become an issue which is impacting automobile sales in India and obviously with BS6 our cost increases will be even significant now at least on the diesel side and on the two wheeler side. So just wanted to check on that there will be lot of pressure from the OEMs for you to kind of give them discounts or lower pricing. Just wanted to check on that whether BS6 products and all can be margin dilutive for you or do you have any kind of range in terms of profitability either at EBITDA level or EBIT level that you want to work with for sure?

Soumitra Bhattacharya: Thanks for the question. But we do not give guidance. So I want to be direct about it. Having said that I will just say any of these numbers are going to affect the entire value chain and it will be determined by customer. Last, I would like to say please remember four years ago where people will willing to buy cars mainly between Rs. 5 lakhs to Rs. 8 lakhs today people are willing to buy between Rs. 11 lakhs and Rs. 15 lakhs, the same people.

So we believe the Indian economy will continue to evolve. The objective has to be that we will have to do optimal cost, optimal quality and deliveries are given. And positive part is Bosch has lot of technology and Bosch has a lot of experience in India to provide affordable solutions.

Nishit Jalan: So just one request. Would you be able to share your revenue breakdown by different automotive segments like tractors, CVs and PVs, it will help us better understand your company and to look at it going forward?

Soumitra Bhattacharya: We do not give these breakdowns. I can tell you that we are very strong in tractors, we are very strong in CV and LCV and we have got a very good segment also within the passenger cars. We are also pretty strong in off-highway.

Moderator: Thank you. The next question is from the line of Nikunj Doshi from Bay Capital. Please go ahead.

Nikunj Doshi: Just wanted to know when the industry moves from BS4 to BS6 as the company what will be your content per vehicle you will be supplying, will it increase, decrease can you give some idea?

Soumitra Bhattacharya: Nikunj, sorry to disappoint you again. We have never given content per vehicle.

Nikunj Doshi: But broad based idea means whether it will increase or decrease?

Soumitra Bhattacharya: Broad we can give you an answer. That for BS6 and all of us know BS6 technology is BS4 plus EGT and some changes. We have had a very good acquisition calendar. And that you will get to see during the financial year 2021. So that we have stated earlier very clearly and we have also stated that we are partnering with most of the OEMs from conception right up to SOP.

Nikunj Doshi: And what will be your take on FY21 outlook for the industry?

Soumitra Bhattacharya: Nikunj, this is more a personal opinion. Like 2019-20 2020-21 will also be a determining year for India because we are just transitioning into BS6. It seems that India we have lost 3.5 to 4 years. By the time we come back to the peak levels of 2018.

Moderator: Thank you. The next question is from the line of Sham Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Sham Sundar Sriram: Sir, in the prior calls you had mentioned that we have close to 30% market share in gasoline in the passenger vehicle segment. With post the BS6 or even now what the transition is happening have we crossed that market share level in gasoline for passenger vehicles?

Soumitra Bhattacharya: Thanks Sham, you got a pretty good memory I must complement you. Having said that yes, we are improving but we do not give every quarter percentages. But we are improving and having started a little later compared to diesel we are doing well.

Sham Sundar Sriram: Okay so that level is still improving?

Soumitra Bhattacharya: Yes.

Sham Sundar Sriram: And just one broad question. In the gasoline passenger vehicle what content per gasoline passenger vehicle is it right to assume it will be lower than diesel passenger vehicle, much lower is that a fair assumption?

Soumitra Bhattacharya: Sham, diesel and gasoline are different. I mean if you just look at the component. So it itself explanatory. We are not going to indicate what and how much but diesel and gasoline clearly are different.

Sham Sundar Sriram: And given that already even the two wheeler OEMs have started to launch these BS6 models and we are hearing more vehicles as well come through. Have we started localizing many of these parts that we will serial production for many of these BS6 parts?

Soumitra Bhattacharya: Yes Sham, and also know we do it in a very designed way. We initially trade later we localize. So we will go through that process. Exactly what we did for transitioning from purely conventional parts to common rail. So we will do it in the similar way.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Sir, my first question is with respect to your comment that we may have lost three to four years to reach and it may take three, four years to reach the 2018 peak. Is it pertain to any specific segment or it is you see these issues across sub-segments of the automobile industry?

Soumitra Bhattacharya: Chirag, just to clarify it is not that Bosch to reach 3.5 to 4 years. It is our estimate for the industry. Yes, just to clarify that. So having said that naturally different segments will have a different take. You have the sharpest drop in HCV so that will take also the longest. If you have 35% to 40% drop in HCV with excess capacity overnight with 30% to 35% then that will take the highest. We also have a very sharp drop in example in LCV it is a sharp drop in pass car but not as high as HCV.

So summary it is a segmental drop but overall if you look at with all the six elements of HCV, LCV, Pass car, tractors, three-wheelers, two-wheelers and finally off highway it is going to take about 3.5 up to 4 years to come back to the peak because first year already is a degrowth, next year we guesstimate is going to be equal to or may be a degrowth and the next couple of years after that will take to come back. So fastest may be three years, reality may be between 3.5 to 4 years.

Chirag Shah: And which categories you are more hopeful to recover faster just like two-wheelers or three-wheelers or anything which you think could recover much faster?

Soumitra Bhattacharya: Chirag, I am personally not I do not think anyone in industry is able to say that. Yes, tomorrow if you have a policy it will become a game changer. Just take an example if you have a policy change like the world has on scrappage with 12 to 15 years with very clear norms to see that they do not go back again. You will see a change. So policy changes will support and help; sentimental changes will support and help.

The Indian economy changes will support and help; NBFC and banks matter recovery will help but I cannot say that because it can be a spike, it can be a regulatory change. So there are multiple factors round it. We have said subject to standard conditions remaining and slowly sentiment coming back. This is our estimate.

Chirag Shah: Sir, second question was with respect to this transition to BS6 especially on the diesel side. What are the indications you are getting, how the transition will happen, when would you start the production and how much time it will take for you to ramp it up to the desired level?

Soumitra Bhattacharya: I handover to our CTO who will explain in detail.

Jan-Oliver Röhr: So of course let us say it is a very tight raise until the 1 April 2020. The whole industry is gearing up and we are having more and more regulator access of course with all the OEMs that are blocked in with us be it from FIE and also the after treatment system side. So I do not think that

the government is changing their mind in introduction. So the 1 April 2020 is a very firm date and I do not think this to be changed.

And the first let us say certifications homologations have already been done you are aware of that. You know all the OEMs we are under they have been published in the newspapers. We are doing what we call the PPAP, the Parts, Production and Approval process with the OEMs and then we will start production. So the first COES products we think is to fill the pipeline starting in mid end of January next year.

Chirag Shah: Okay and how much time generally takes to ramp up a new technology?

Jan-Oliver Röhl: Look this is a very general question for which you ask a specific answer now and I cannot give you that. But let us say it is a mix pack. We have carry over components. As our MD just mentioned Mr. Bhattacharya that we are, let us oblige to not only fulfill the emission norms and going beyond the norms but also we have to be competitive and offer solutions that the customer are willing to take and also the final customers.

We were looking as much as possible to choose our existing product portfolio to have carry over components specifically on the FIE side. So here we will gear up far quicker whereas for the after treatment system side this is a far bigger challenge. And again this challenge is not specific to Bosch but for the whole industry.

Chirag Shah: Why I am asking this because when we transition from BS3 to BS4 while especially in the truck side because it was more relevant at that time for trucks. There the demand was very strong but there were supply issues or supply constraints which came across from various players because the ramp up took a slightly longer time than expected at that point of time and this seems to be a far trickier technology than BS3 to BS4 transition?

Jan-Oliver Röhl: You have a very good memory from BS3 to BS4 it was specifically tough for the trucks and it was even tougher because let us say some of the market players they could not follow the pace and we had to jump in at a very short notice on a very short notice. I do not think this is going to happen again. The industry knows very well that the 1 April 2020 is a very firm date and is getting prepared for that. And my feeling is that we will not see a single OEM supplier shiver.

Moderator: Thank you. The next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.

Soumitra Bhattacharya: This should be the last one. Yes Nishant, your last question.

Nishant Vass: Sir, primarily my question is more from a restructuring perspective and the employee cost line item. So when I look at your managed the accounts number were say last five years you have done a creditable and excellent job and there was a headcount management there is nearly a



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2,000 people headcount reduction from FY15 onwards. Now you had obviously talking about further restructuring. So where do you think from a headcount perspective you will be looking at the company over say next three year cycle because we have seen nearly 25% revenue growth since FY15, and absolute headcount is down by 17%. So could you throw some light on that?

Soumitra Bhattacharya: We are as focused for the future, but I will request our CFO, Mr. Srinivasan to reply.

S. C. Srinivasan: So the headcount or the numbers which we are looking at is more to looking at organization structure, spans and layers looking at where automation bundling centralization if possible. There are various universe that we are adopting, and this is as far as white collar or M&SS is concerned. As far as blue collar is concerned again in the specific value streams looking at the opportunities where one due to the volume shift that are happening the annexes that are generated and also as a result of automation that we are doing industry 4.0 and other there are certain activities we could get which can be automated or certain quality or inspection can also get automated and these are ones that are generated surplus.

While I cannot give you a specific number saying that there are all I can say is that there are various levers that are getting adopted to really looked at what should be the organization designed for the future. Having said that this is not only about just number reduction but it could make our organization much more agile and much more speedy, much more empowered organization.

Nishant Vass: Thanks Srini sir. If I can just a last connected question is that you were highlighting the M&SS reduction. So if I see as per your annual report last year there nearly 40% reduction in M&SS has happened. So do you think there is more scope for reduction on this head count?

S. C. Srinivasan: So part of the M&SS's would have happened over a large period of time. But yes, that is also an area because we believe that yes there is large opportunity for automation large opportunity for automation to happen, reduced spans and layers. All of quarter I said. So there is opportunity there as well.

Soumitra Bhattacharya: Thank you, Nishant and thank you. I think we will close the conference with this. Thank you colleagues for having joined in.

Moderator: Due to time constraint that was the last question. I now hand the conference over to Mr. Annamalai Jayaraj for closing comments.

Annamalai Jayaraj: Thank you everyone. On behalf of B&K Securities we thank Bosch management for taking the time out to discuss the 2Q FY19-20 quarterly result. We also thank Bosch management for providing us the opportunity to host the call. Have a good day.



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

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