



“Bosch Limited
Q1 FY2020 Post Results Conference Call”

August 13, 2019



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

MANAGEMENT: **MR. SOUMITRA BHATTACHARYA – MANAGING DIRECTOR – BOSCH LIMITED**
MR. JAN-OLIVER RÖHRL – EXECUTIVE DIRECTOR & CHIEF TECHNICAL OFFICER – BOSCH LIMITED
MR. S C SRINIVASAN – CHIEF FINANCIAL OFFICER & WHOLE TIME DIRECTOR– BOSCH LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Bosch Limited Q1 FY2020 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 the 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!

Annamalai Jayaraj: Thanks Steven. Welcome to Bosch Limited Q1 FY2020 Post Result Conference Call. We are delighted to have with us today Mr. Soumitra Bhattacharya, Managing Director, Mr. Jan-Oliver Röhr, Executive Director and Chief Technical Officer, and Mr. S. C. Srinivasan, Chief Financial Officer and Whole Time Director. I would now hand over the call to Mr. Soumitra Bhattacharya for his opening remarks to be followed by question and answer session. Over to you Sir!

S Bhattacharya: Thank you Mr. Jayaraj. Good afternoon to all colleagues in the conference call and thank you for being a part of this call. I would like to start with the brief about the macroeconomic and policy highlights for the quarter affecting our business with the general election results finally brought political stability at a time when growth is currently slow. The new government’s budget has set the tone for policy response with a focus on reviving investment and rural economy as well as improving the financial structure to spur credit and spending growth. The other major events of the quarter were the data released of a rather disappointing Q4 GDP and the all time high unemployment data.

Private consumption has declined due to rural distress and tightening lending conditions, which were in turn a result of ailing health of financial institutions, specifically the non-banking financial company’s or NBFC. The automobile industry has been reeling under intense pressure during this first quarter of financial year 2019-2020. Overall the economic slow down coupled with the delayed monsoon as well as in many cases monsoon, which had led to floods that is both deficits and floods in many regions and this has impacted rural demand. Moreover, liquidity issue to some extent as well as inventory correction for better business visibility and viability at the dealers end has resulted in a sizable volume decline across the automotive and mobility segments.

In this background, let us look into the automotive market development in the last quarter. Overall, automotive market production decreased by 13.3% owing to the reasons, which I explained and economic slowdown. HCV segment declined by 19% majorly on account of



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increase in diesel prices also along with poor market sentiment and NBFC. Passenger car segment declined by 11.9% heavily influenced by liquidation of unsold inventory affecting inwards. Tractors showed a decline of 20.4% due to lower demand from farmers resulting from reduction in agricultural GDP. Among the other market sentiments, three-wheeler segment reduced by 11.4% and LCV reduced by 11.2%. Now, having said the context, let us take a look at how the company performed in April to June quarter amidst the aforementioned factors.

Revenue from operations were at 27,788 million, which is a reduction of 13.5% as compared to the corresponding period of the previous year. Mobility business sector declined by 17.5% whereas the business beyond mobility sector reduced by 16%. The domestic sales for this quarter witnessed a decline of 18.3% wherein mobility business sector declined by 18.2% and business beyond mobility sector declined by 19.1%. Exports decreased by 4.2%. Though power tools and security division show an export growth, business beyond mobility declined by 20.9% on account of low order from energy business, which is a project base division. Other operating income is up by 788 million, which is mainly on account of assets related government grant received at Nashik plant of which Rs.637 million is accounted as income for fully depreciated assets.

Apart from this, other operating income also includes rental income and export incentives. Material cost as a percentage of total revenue from operations has marginally declined mainly due to cost reduction measures partially disturbed by commodity price increase and unfavorable forex variations. Employee cost has increased to Rs.3575 million in April to June 2019 from 3509 million in April to June 2018 a marginal increase of 1.9% driven by annual salary revision partly compensated by productivity and manpower optimization. Depreciation has declined by 19.5% in April to June 2019 as against April to June 2018 on account of low additions in plant and machinery, which attracts higher depreciation charge. Other expenses stood at 4302 million April to June 2019 as compared to 4845 million April to June 2018, a decline of 11.2%, which is attributable mainly to the reduction of turnover by 17.3%.

Operating profit is lower by 23.8% in April to June 2019 as compared to April to June 2018. This has resulted mainly due to lower turnover. Other income has decreased from Rs.1147 million in April to June 2018 to 988 million in April to June 2019. The decline is because of mark to market gain on marketable securities. In the quarter ended June 2019, the company posted a profit before tax before exceptional item of Rs.5043 million as compared to Rs.6489 million in the same quarter 2018, a decrease of 22.3%. As a percentage of total revenue from operations PBT stood at 18.1% in the current quarter as



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compared to 20.2% in the corresponding quarter of 2018. Profit after tax before exceptional item is 12%.

As the Indian automotive market is undergoing major changes from regulatory, technological and market factors including opportunity in new segments of electromobility and mobility solutions, the company has initiated several transformation projects including restructuring to remain competitive amidst the emerging opportunities. Inline with this, the company has initiated a provision of Rs. 821 million and disclosed this as an exceptional item for the quarter ended June 30, 2019. Profit before tax after the exceptional item stands at 4222 million, which is 15.2% of the total revenue from operations. Profit after tax stood at 2799 million, a decrease of 35% over the same period of previous year.

Some other highlights, the Bosch Global board of management visited India after a span of 6 years. This visit indicates the importance of India and the Bosch Global outlook. Over the three days visit, the Board met important internal and external stakeholders. Bosch India team presented our vision for the future, proofing of our organization both for Bosch India as well as Bosch Limited, key projects in mobility and beyond mobility space, our Lakshya Strategy and its impact so far and our commitment to people excellence and social engagement. The board also met with important business leaders and key customers in Bengaluru, Mumbai and New Delhi including meeting our honorable Prime Minister, Mr. Modi to understand his vision for India and his expectation from the Bosch group.

Over the three days, they received an in depth view of the India story, the current market scenario and how the country continues to be a positive spot for the mid and long-term economic growth and promise, which is India. With the ongoing slowdown in the market and multiple vehicle manufacturers reducing their production we perceive a very conservative outlook in this sector. Though empirical evidence in past suggest a pre-buy in the market before implementation of regulatory changes like the BS6 change over, however, in the current market scenario, there is a high uncertainty of a pre-buy. The markets are likely to stagnate for a while until the end consumer paves a way for the mobility mix of the future. We clearly believe that the automotive sector in India is going through a paradigm shift. The changes in the sector are not cyclical, but more structural in terms of changing dynamics of Powertrain.

Therefore, financial year 2019-2020 looks to be a very muted at best if not a negative and de-growth for the year. To counter balance the tough market conditions, the company has already started several months ago, control measures internally initiatives like Pariniti, Samruddhi, which are helping us to identify areas of synergy improvements as well as increase our operational efficiencies. However, the current scenario calls also absolute need



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for restructuring. We not only need to adapt to the future business models, but also to re-look at our existing portfolio of products and services and competencies. Personnel adjustments therefore will become unavoidable, but this will be carried through in a socially responsible manner.

Bosch India is deeply committed to the future growth of India and will continue to take all steps in a holistic manner to retain this approach and to continue to invest in India while taking necessary course corrections as I had mentioned. Thank you for your continuous listening patiently through the call and I would now like along with our team answer any queries that you have. Over to you, Mr. Jayaraj.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Thanks a lot for the opportunity. My question pertains to the 821 million provision, just wanted to understand does it include change of write-off of the BS-IV opportunity or BS-IV technologies, which will not be relevant post April and does it have a play on the depreciation number coming down for the quarter because it is like a 16 quarter low for us on the depreciation side and I believe we have been investing quite a lot for BS-VI technology as well, so just trying to understand the connections between the two?

S. Bhattacharya: Thank you Pramod for the question. The answer is no. This exceptional item has been kept for restructuring, redeployment and rescaling. As I had mentioned to you before that the industry is going through a very huge structural change and this is not a cyclical slowdown and therefore, if you look at many aspects like BS-IV to BS-VI, electrification if you look at the mix and if you look at, therefore the need for having different technologies and also therefore competences in people and I also mentioned that we will inevitability also across industry, but also in Bosch have the right cycling and therefore personnel adjustments, so this has been kept for this and it is not a one time loss as some of the television have also indicated, so that is a misrepresentation. Thank you for the question and I hope this clarifies the answer.

Pramod Kumar: Sir, related to that depreciation side, is it the sustained level or will we expect to see some sort of a buildup as we approach BS-VI because there will be meaningful investments, which will start hitting the P&L right in terms of capitalization?

S. Bhattacharya: Pramod, first of all if you look at our depreciation as a percentage to the total cost is relatively low, second we do meaningful investments in what we need for the future including for BS-VI, which we have done and there could be some variance from quarter-to-quarter, but it will remain generally in these parameters that we had in the many quarters.



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Pramod Kumar: Second question and final one is on the production trends in the industry because if you look at the July data, which has come out from SIAM, what we notice is like 17% of the production in the passenger car industry could not be dispatched in the month of July and do not know when was the last time we had that kind a scenario where you had 17% of the industry production not be able to move out of the factory gates, so given this how should one look at Q2 and Q3 from your perspective, especially given that your revenue and profitability depend on the production at the OE level and given the inventory levels being high and kind of resulting in shutdown, how would you play the next two quarters, I understand the medium to long-term opportunity in India, but how would you look at the Q2 and Q3 at the industry level?

S. Bhattacharya: We have also Pramod, we have indicated this to various stakeholders including there were some television interviews that we must understand that the July numbers have been even lower than any of the months in between April and June and right now currently as we see there is an inventory being carried by OEMs to the extent of anywhere between 55 and 60 days on HCVs and LCVs, all of us know the tractor thing is not very transparent, but tractor also there is a high inventory and passenger cars is about 35 days, it has come down relatively, but it is far away from the normal 20 days to 25 days. So short point. A. Industry will have to dispatch its vehicles of BS-IV before we believe not just the fiscal year of 2019-2020, but perhaps the end of third quarter fiscal year 2019-2020 because that is the must. B. There is a very deep slowdown and that partly due to NBFC and the lending, all of us know that many of the segments are heavily dependent on the lending, but also it is not cyclical, it is structural and there are multiple factors, finance being one of them, BS-IV to BS-VI being one of them and the overall slowing down of the economy, so we see in summary that 2019-2020 for the industry is going to be a negative growth as I had mentioned already in my speech and we see that this is going to affect everyone including us and therefore Bosch Limited 6 months ago itself started transformation as well as restructuring program, which we are openly talking and using some of funds to do it in an effective manner.

Pramod Kumar: Thanks a lot and best of luck. Thank you.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities Ltd. Please go ahead.

Jinesh Gandhi: Sir, my question pertains to the structural factors we are talking of, which is resulting in the slowdown, how do you see that influencing the long-term for the auto industry that we were seeing 6 months back or a year back?

S. Bhattacharya: Jinesh, always there is a cycle of peaks and drops, but this cycle of peaks and drops, we believe is not the typical cycle, which happens once for a period of 4-6 years, which is also happened before, so in summary the year 2017 and 2018 or 2018-2019 also to some extent had been very high peaks in the auto industry and after this the slowdown, which has happened, which is linked now to the aspect of BS-IV to BS-VI, the huge NBFC crisis and the banks and credit, the upfront investments in vehicles like two-wheelers for insurance and registration all this has resulted and you have seen that the load carrying capacity of HCV and LCV with the 22% to 25% increase has further reduced and GST introduction has given a further 8% to 10% benefit of transit times, so all this you have to take it into account and then you have to take into account shift in technology and finally the uncertainty of the timing in relation to electrification, which has been announced. The industry will go through a very, very challenging period, the entire industry and this will take some time to recover, our estimate 2019-2020 the full year is going to be a very challenging period with the spillover possibility for a certain period in 2020-2021.

Jinesh Gandhi: Secondly with respect to this 82 Crores provisioning, which we have done, how much of this would be for restructuring and reduction of employee and how much would be for redeployment of resources?

S. Bhattacharya: It is a package, Jinesh. Look, Bosch has been a very, very, I would say socially responsible and caring organization. We will do everything possible for both rescaling and redeployment, but we also see that inevitably that we also will have to do certain right sizing, but as I had mentioned in a socially responsible manner, so it is a package and this is a package, which we will have to time-to-time see how and what we do, as you know Bosch maintains a certain cash balance, we are a zero debt company and we will do this in a fair, ethical, transparent as well as optimal manner on one hand in relation to our main asset, which is employees and on the other hand also to retain the competitiveness of the organization.

Jinesh Gandhi: Right, and in that context what is the capex guidance for FY2020 and FY2021, if you can give?

S. Bhattacharya: 2020-2021, I cannot give, but you know that we have been spending for Bosch Limited in anywhere between 350 Crores up to 500 Crores and this based on current muted demand, we will look at very clearly optimizing and right sizing capex of what is required by the industry. Jinesh, today not just Bosch Limited, but practically the entire industry has huge capacities, which are unutilized, so we will very carefully think out and right size our capex plans because we had from capacity and other things we have put everything in place and right now across the industry, the demand has come down and capacities are not being used.



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Jinesh Gandhi: Right and lastly in terms of our product impact we indicated there was an impact of forex on RM side, would you able to quantify that?

S. Bhattacharya: It is a minor amount, but you know that the rupee had depreciated on the USD and that was the impact, which came up, but relatively it is a minor amount and therefore you see a more or less flat situation, so around 54% to 55%.

Jinesh Gandhi: Understood and I agree. Thanks and all the best. I will come back in queue.

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

Sonal Gupta: Good afternoon, Sir. Thanks for taking my question. Just wanted to congratulate you. It is something, which I forgot last time around on your carbon neutral by next year strategy, so that was the only thing and just wanted to get a couple of number, I missed those, so could you indicate how much was the mobility business in India down by?

S. Bhattacharya: For mobility India?

Sonal Gupta: Yes, Sir.

S. Bhattacharya: For mobility segment, we are down by 17.5% I indicated this is against the 13.5% of the market.

Sonal Gupta: Right and exports were how much?

S. Bhattacharya: Exports were also down, I will just see the number and it is 4% down. You know, our export base is relatively low.

Sonal Gupta: Sir, I just wanted to come back to your point on the structural slowdown, I do agree with you that the factors, which seems to be driving this does not seem like transitory thing, but most of the factors that you outlined are partly transitory like NBFC issues, the BS-IV to BS-VI and so just wanted to understand, are there any other factors, which are driving your caution and that makes you say that this is a more structural in nature, I am just trying to understand a little better, because clearly we have not seen this sort of a slow down ever and clearly there seem to be other factors, which seem to be playing as well?

S. Bhattacharya: So, Sonal, what we had said is our view, but a lot of industry people are talking also the same language, you will hear different views, so this is our view, so if you take the breadth and width of the changes that are happening and many of them are very different from the



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earlier cyclical changes, take now the technology shift of the BS-IV to BS-VI take the aspect of diesel, gasoline and electrification, take the announcements by Nithya Ayog and industries reaction and yesterday or today, the Prime Minister has even committed that IC needs to continue along with electrification, which of course the industry welcomes, take the aspect that the whole banking industry is very stressed, it was not as fit, including banks not giving to NBFCs and NBFC is coming under very tight controls where if there is a default of even one EMI, it is called NPA, so there are multiple factors and take the aspect that our monsoon has not been good either it has been drought or too much, floods there has not been even spread and finally that the overall economy in Indian is not moving, so it is technology, it is electrification, it is BS-IV to BS-VI, it is NBFC and banks, it is a multiple set of aspects, which is driving and finally take the aspect that mobility in India itself is changing, if you take the Ola and Uber and how shared mobility is coming up, so there is a multiple set of factors, which is coming and all this is happening at a time when there is a overall slowdown.

Sonal Gupta:

Right and just a follow on, just relating this to your restructuring and rescaling, etc., so in what ways do you think that your portfolio needs to change, I understand that right now you have a diesel heavy portfolio, but clearly on the commercial vehicle side that would probably remain that way even post BS-VI so just wanted to understand a little more in terms of how is Bosch changing its strategy from a medium to long-term perspective?

S. Bhattacharya:

So, the first part of the change in strategy, which we announced with all of you in September 2017 was when we brought electrification into the portfolio of Bosch Limited. We had an option to keep it in different other legal entities or to create a new legal entity, by design we have brought the entire gamut of electrification, which will be owned, invoiced and partnered across with all OEMs and others and within and through Bosch limited. The second that we shared with you last year is that we brought the entire gamut of mobility solutions, which include hardware with software and intelligence and connectivity into for mobility and beyond mobility, but primarily mobility called Mobility Solutions into Bosch Limited, so these are two very fundamental changes that we shared with you and we had also shared with you that it of course depends on our customers in terms of launch that we are at an advanced stage in working with define customers on three-wheeler and two-wheeler on electrification and the government also announced this matter separately and independently, so that is one part of our strategies. The second part you know that Bosch has not only been very strong traditionally on diesel, but the last 8 to 10 years we started working very systematically on gasoline. In a fragmented market we hold a significant and good part, definitely not as high as diesel, but on gasoline and we will grow and we have been growing on a strong double digits on that until the slowdown happened, but we will also grow on that and improve our share. Finally, on diesel we believe diesel has a future



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and the statement of what the Prime Minister has announced about IC being equally relevant because we do not see electrification taking a huge percentages immediately in the near future even up to 2030. As you rightly said HCV utility vehicles in cars, cars over 1500 cc, three-wheelers until electrification, tractors and LCV for last mile connectivity until also partly electrification will continue to have diesel as a main stem. Does that answer you question.

Sonal Gupta:

Sure Sir. Thank you so much.

Moderator:

Thank you. The next question is from the line of Pramod Amthe from CGS-CIMB. Please go ahead.

Pramod Amthe:

Couple of questions, one with regard to the global board, which came in, what type of visibility you see in transforming the business, for example, in 2 or 3 years down the line, how will your portfolio look like with the confidence of the global management?

S. Bhattacharya:

Thank you for the question, Pramod. First of all as I had mentioned, the global board does a detailed country review on a very defined and planned basis and they definitely see India where we have been in India Bosch for 97 years as well as we are manufacturing for 67 years as one of the brightest spots in a slowing world wide economy relatively, of course India is also in a slowdown mode currently, but is one of the brightest spots for the long-term and midterm, so that is one. The second aspect is we showed the global board the various opportunities that India offer while changing fundamentally structurally in the mobility area, what I had mentioned before, so one area is what I said focused and defined bets on electrification, another area is focused and defined bets on mobility solutions, Bosch is very good at software, hardware and embedded software technology including IOP as a company and Bosch is very good at artificial intelligence, one of the centers in the world is located in India out of the 3 centers and also Bosch is pretty good at innovations in its core business, so we talked about all aspects core, non-core, adjacencies and future businesses, we talked about electrification and mobility solutions, and Bosch has been working globally on electrification for the last 10 years. We talked about the portfolios that we have and we require for India with high levels of localization and we believe that with this entire global board visiting us, we believe that we have been able to position India with facts and figures besides giving them external impulses, which they got from multiple very well known speakers including getting to meet Mr. Kanth as well as Mr. Modi.

Pramod Amthe:

Sure, I agree on the software aspects, is there anything in terms to take away 3 years down the line your sales mix, any changes, how will you drive it or the way you wish to operate



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in terms of import content that will drastically change so that your profitability or offering to the industry will change drastically?

S. Bhattacharya: Of course, localization has been a very important part of our dialogue, but no such strategy in board meeting goes into saying that next week our localization percentage will improve by so much percentage that does not work, so it is a part of the strategy you have seen that Bosch India has been focusing on localization for many decades and we have defined areas where we are going to focus of course what I had mentioned before remains valid, localization works when you have a certain content and a certain volume, so it is in that context that we have talked in defined areas, everything cannot be spelt out, I mean do not get me wrong, but I have given you a broad idea and I think that is what we can share with you.

Pramod Amthe: The second question is with regard to the aftermarket, how has been the aftermarket performance in this quarter and any green shoots or how long it will take to turnaround as compared to the recent times, as we see OEM numbers every month where is the aftermarket situation?

S. Bhattacharya: So, Pramod, the aftermarket has also had a de-growth, we see that this is a phenomenon with not just us, but also our competitors, we are not seeing major growth in the market, we are working out in the aftermarket a strategy to ensure that not only our current product portfolio, but future product portfolio, the Bosch overall product portfolios where if you have certain gaps in India also looking at digital ecosystem and we are trying to look very carefully because we have got a very expansive set of workshops across India, on how we transform our workshops and our network and what they can offer to the customer, so yes, we have de-growth in aftermarket, it is a fact also that across the industry there is de-growth and we are looking and we are spending time on trying to see how we turnaround based on the changes, which are happening in the aftermarket and especially with OEMs having a very strong stranded hold where they want to also retain there aftermarket ecosystem.

Pramod Amthe: Thanks a lot and all the best.

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

Ronak Sarda: Sir, thanks for the opportunity. I have a couple of questions, first was on the electric vehicles, I mean given the Bosch preparedness in product portfolio, I wanted to understand from the OE perspective, are the players serious enough to launch products over the next 2 to 3 years or this would largely be driven by government intervention of strong will and



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secondly we are seeing news on electric vehicles in buses and three-wheelers market, will these be the key focus areas initially?

S. Bhattacharya:

Ronak, I will give a brief feedback and then handover to our chief technical officer who is also looking after electrification to give us slightly more detail, but briefly as a summary, I can tell you electrification will come in where we believe that electrification along with IC will exist as our Prime Minister has already now mentioned, second we also believe that the sequence of electrification will be three-wheelers followed by two-wheeler followed by intra city buses, fleet pass cars. There are huge challenges in India specifically on the whole aspect of swapping of battery, the cost of electrification, the battery and when you look at electric vehicles of any form as compared to the current IC engines, so in summary, we believe that while the government is having a very cleared thought process and intention to leap frog starting with three-wheelers, two-wheeler then pass car fleet or intra city buses, there are many challenges that we have to overcome including the infrastructure and the cost of battery, which is still 60% to 70% of the total vehicle cost which will take time and currently the bottom line is not positive, but over to my colleague Jan Rohrl for any further specific comments.

Jan Oliver Rohrl:

As Soumitra rightly mentioned there are a variety of challenges that we need to overcome with the electrification for the mobility in general, this the range and the range anxiety moreover of the final user combined with the availability of infrastructure that can be charging, be it AC, be it DC, be it fast charging or swapping for lighter electromobility, both availability of products in general normally a customer want to have a choice to really make their choice finally and not depend on one or two models only it is about the technology itself in the sense of low voltage, is a higher voltage and even if it is higher voltage you have different varieties and finally everything linked around the cost, while we all know that let say from the simple power train is looking a little bit more simplified but also here in the details, the cost they are not to be denied starting but not ending with the battery, battery management system with the charger, with the question of what kind of integration you want to chose for your power train is it an inverter combined with a motor, is it a so called EX combining the inverter with motor and many, many things more such as naming it down to the different mobility solutions, in a nutshell one can say the more the vehicle is in use, the better is of course the case for the owner of the vehicle and that was by the way also recommendation given not only by Mr. Denner, but by the Bosch team to the NITI Aayog to really focus on everything around public transport, but also to harvest not only on the TCO side, but more over on the overall benefit that an electric vehicle has that is producing no emission wherever you drive, but only wherever you drive I am not speaking about any two wheeler emission scenario, so in that case we think that everything



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around public transport is to be taking up earlier and that is including specifically also the three-wheeler systems for which we think also the TCO case can come positive.

Ronak Sarda:

Sir, the deeper question which needs to be answered is this transformation to EVs would largely be driven by government will and spending or are there enough efforts being taken by OEMs as well to setup the infra issues or to improve the tech to reduce cost, where do you see?

S. Bhattacharya:

Ronak, we will keep the answer simple, to the same tune of 10000 Crores is the first time that the government has put in upfront money with defined three conditions on electrification focused towards localization and the government is very clear, it will not subsidize in other forms. The government will also not participate in Giga factories, the government has invited many companies to say who wants to set up the Giga factory for cell manufacture and the government will also not setup the infrastructure, so it will have to be done by the private sector and the bottom line is currently whoever is getting into these volumes that are medium or larger from 500 to a few thousand vehicles no one is earning money on it, that is the reality, so short point FAME 2 has been announced, it has defined boundary conditions, second the government will not beyond FAME 2 go into an elaborate spending, the government can do other things by saying that after this date X percentage has to be produced in EV or through Capi norms you have to bring in EV to keep you Capi norms in standard, but the government will not get into any major subsidy beyond this.

Ronak Sarda:

Right Sir, second question is on the connected solutions, we are seeing pretty aggressive acceptance from the major OEMs across passenger vehicles, commercial vehicles industry as well, how do you see that trend shaping up and how does Bosch is playing a role in it?

S. Bhattacharya:

So, we have the largest R&D force in the world outside Germany located in India and when Mr. Denner came here our global CEO, he also made an announcement, which you may have read that India will continue to play a very dominant role on providing solutions including connectivity and IOT for the whole Bosch Global world, but also to third parties. Therefore in India, we have setup the mobility solutions scheme, which also looks at connectivity because we also have a very huge back bone, the employees currently are not inside Bosch Limited, but they provide these services to Bosch Limited and Bosch Limited will be completely invoicing all connected solutions, so we see a strong future in that having said that this will take a little time, it is not going to be overnight transition because volumes will have to pickup, but what you rightly said there will be a strong trend in the future and for that we are well prepared by putting mobility solutions, which includes connectivity of all forms into that and having said that, I would just like our executive director and chief financial officer to also before any of you ask any questions, to give a



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brief talk on what for the first time we have announced with you, but we feel under these circumstances is the right thing to do, which we have started 6 months ago on transformation and restructuring. Over to my colleague, Mr. Srinivasan!

S C Srinivasan:

Thank you. As we just said the mobility market is undergoing a structural change, there is BS-VI coming in, there is electromobility coming in and there is also the opportunity on mobility solutions, now as you may already know that as compared to diesel if there are 10 people associates who are working in a diesel plant what we require in an electromobility plant is almost one-tenth of it and that is one, second is mobility solutions will also have a large element of software in it and all of this requires a large level of transformation and we have started this transformation about 6 months back really looking at restructuring, redeployment, reskilling of our people from one business to the other business and this whole area of fixed cost optimization to really structurally shift the cost base of the company to look at organization structures, spans and layers and also last but not the least look as asset productivity in a very different manner, so a series of transformation steps are already underway, this is something that will take in my sense would be at least 2 to 3 years as we go forward for each one of them to payback, but I think this will make us more agile and more in tune with the market reality and the volatility that we will see in the market, so that we remain competitive in the years to come.

S. Bhattacharya:

Thank you, Srini.

Moderator:

Thank you. The next question is from the line of Alroy Lobo from Kotak Investment. Please go ahead.

Alroy Lobo:

Thanks for the taking my question. You mentioned about restructuring and realigning your businesses for the future, I just wanted to check in this course of the realignment, what could be your competitive positioning going forward, would it be better than what you have right now in the various segments you operate in, number one. Number two, given that localization will take time and there is going to be competitive intensity, when this transition is complete do you see the profitability being better than what it is today?

S. Bhattacharya:

So, Lobo, any transformation as well as restructuring as my colleague, Mr. Srinivasan mentioned will require a certain time and we estimate that anywhere between 2 and 3 years, of course very important for us is to, focus, which we are doing on our core business and we are clearly focusing that our core business is diesel and gasoline and in diesel we are focusing, you have already been heard that, but also to bring new businesses, which already 2 years ago even before this started happening we brought in which I mentioned and very important focus that we are shifting into is not being a component suppliers or not just a



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system suppliers, which we have been very well known, we are focusing on being a solution supplier because the technology and the innovation that we have and the reach that we have across the world allows us to get into that span and finally we are looking at the share of wallet rather than just what is our component sale, so if you take this combination of A. Products and components changing to solutions and B. For which you need technology, which Bosch is pretty well equipped both from management, but more importantly also from content and C. Since our company has had a very high focus on ability to create frugal affordable innovation and D. With the new changes, which are happening, how do we enter the market and therefore the reskilling, so answer is yes, over time our profitability will improve and yes, mobility market in India will continue to grow, but in a different way that is why we said this is a structural change and those companies who do not make this structural change, may remain profitable now, but will not remain competitive later, so this is a very important shift and we will have go through initial shot perhaps midterm pain, but if you want to get mid and long-term gains, we will have to go through this pain and we are doing it in a very transparent professional way. Does that answer your question?

Alroy Lobo:

Yes. Thank you.

Moderator:

Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati:

Thank you so much for the opportunity. Can you give us some colour on what has been the extent of decline in aftermarket?

S. Bhattacharya:

Puneet, last financial year we had near double digit growth, this year there is a de-growth till now, we expect by the end of the year if in the current situation that we will reduce the de-growth, it is a single digit de-growth right now and that we will reduce the de-growth, but it will be muted, we do not see any growth factor happening in the current very muted market situation including the credit squeeze that we see.

Puneet Gulati:

So, credit squeeze is you think is what is responsible for this de-growth because you had a minus 1% in Q4, which you think is continue to minus 8, minus 9 is that?

S. Bhattacharya:

Yes, Puneet, the point is we also look at ourselves, but we also look at what is happening in the market, today if we look at matter sentiment ability of credit, ability of demand versus a supply, it is very, very low and that is the reality, we have to first accept that.

Puneet Gulati:

You gave a number for decline in mobility solutions, is it possible to give what is the decline in the power train business?

S. Bhattacharya: The power train is in the same region.

Puneet Gulati: Any colour on what kind market share are you likely to garner in the BS-VI market?

S. Bhattacharya: Let the BS-VI go through and we will give you a feedback. As I had mentioned to you that Bosch Limited was extremely successful in the BS-VI acquisition, but having acquisition only does not translate to results, it has to have an off take in the market that is the bottom line, so let us all wait for the year 2020-2021, we expect this muted condition to continue also into 2020-2021 and it is not that any of us like it, we are not at all delighted by the situation, but this is the ground reality and we have to face it and there is a strong likelihood under the current circumstances that this muted situation will flow into the next fiscal year, so let us wait, having said that I again want to mention majority is not most for all OEMs have been working and are working very closely with Bosch Limited and my colleagues on the line Jan Röhrli with his team and him and others, people are relaying on Bosch to support the BS-VI journey in a holistic manner and this involves right from the conception to the SOB including applications and R&D.

Puneet Gulati: Fair enough, lastly you said your board was here, is there any thought of looking at India as an export hub and look at potential opportunity, which might arrive because of the US China issue?

S. Bhattacharya: It is too early in the days, but Puneet, you are right, we have of course addressed India as a very strong player of ability to meet emerging market requirements, India and especially Bosch India and Bosch Limited have proven time and again to be able to address the world to have frugality, innovation, affordability and to meet not just the Indian market, but also emerging markets, so let us watch and wait, but it is a very strategic decision of them to come, they have seen a lot in details, they have met a lot of people and we believe this can only be good for India.

Puneet Gulati: And if it happens will that happen out of the listed entity or the other entities?

S. Bhattacharya: Puneet, you have always seen that while we have a strategy to bring in certain defined companies either 100% private or joint ventures outside the listed company we also bring very specific areas like as I had mentioned electrification and mobility solutions, which are going to play a very important role for the future into the listed company, we will do this in a balanced way with a very clear focus to retain meet in the listed company.

Puneet Gulati: Alright, that is great. Thank you so much.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Sir, thanks for the opportunity. Sir, you have given elaborative on strategy which is happening in Indian automobile and this muted we expect to see till 2021, can you give little more colour in which in CV, LCV, PV, tractor, two-wheeler, three-wheelers, which will come out fast and which will see some kind of still lagging into 2021?

S. Bhattacharya: Bharat, honestly none of us, starting with me are able to do crystal ball placing, based on the current economy situation this is what we believe. Suppose the NBFC bank crisis blows away, suppose suddenly tomorrow the government changes its plans and pumps in funds, suppose the world economy completely changes and goes into a far, far better mode there are multiple things that can happen, which can change. We believe under the current circumstances this is not just a cyclical change it is structural change and anything which happens on structural changes require some time and that some time is not 3 months, 6 months it extends at times to one year, some times it extends to one-and-a-half or even 2 years, so bottom line it is anyone's guess, Bharat your or mine, but currently under the circumstances we believe that it is likely to be for more than a year.

Bharat Sheth: Thanks.

S. Bhattacharya: We should end with this question because we are out of time unless you want to give a last question.

Moderator: Thank you. It is up to you, can let me know if I can promote anymore.

S. Bhattacharya: Please take one last question.

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

Viraj Kacharia: Thanks for the opportunity. Just had two question, first is you related to the fact that you may see a muted or a decline even in FY2021, now considering that one would typically see a cost inflation in BS-VI so with that in mind, it will imply a de-growth of one more year in the industry, am I right, I am think that is how you are implying it?

S. Bhattacharya: No, sorry I have to please correct you. I did not mention that there is going to be a de-growth in 2020-2021, I said we see a very muted prospect right now for the early part of 2020-2021, we currently see a muted, we do not know whether that will lead to de-growth,



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high de-growth on a further de-growth and I had said that 2019-2020 the year does not seem that we will have a growth, so there will be a de-growth, so I just have to correct you please.

Viraj Kacharia: Yes. Sorry go ahead.

S. Bhattacharya: So, basically nobody knows what will happen, but we are mentioning repeatedly that there is some fundamental structural changes that we see, this is not a normal cyclical change and for the reasons which have been indicated, but anyone's guess.

Viraj Kacharia: Second question from my side is, if I look at the current portfolio and post BS-VI we may see a further increase in our overall content per vehicle and we have seen opportunities in the form of two-wheeler, now if I look at more medium terms, you talked about structural change, how should one understand the current portfolio and the shift, which you are trying to move towards under mobility and electrification, is it that over a medium term we may see probably a similar scale, but a different business economic and if you can elaborate more how would that business economic be vis-a-vis the one which we have currently?

S. Bhattacharya: Viraj, nobody can indicate the business economics, what we can indicate, which we have indicated to you, how are we shifting the times, you heard from my colleague, Mr. Srinivasan about what we are trying to do for restructuring and transformation and not today, but 6 months ago already we started, you heard from our chief technical officer on how we are getting into electrification, but on a define bets, there are many people who are working on it across the board and losing a lot of money, we do not want to be in that zone. You heard from me that how we are trying to do a holistic game plan, but this game plan and holistic will completely depend on how the industry moves, in some case the industry moves where the margins become very strong, some case the industry moves on wafer thin margins, we will have to function within the boundaries of how the industry moves. Summary is we are proactively making changes rather than reacting to this structural change and all companies who are looking a little forward will do proactive changes and will not do reactive changes.

Viraj Kacharia: Just to put it in a different way when we say electrification or mobility solutions when we are looking to participate in this themes, is there profitability structure we have in mind, which will take a minimum bare threshold below which we would not be participating in this, I am trying to understand how the business might eventually evolve?

S. Bhattacharya: Your question is very important, but very complex, I will give a simple answer to it. Our objective is not to burn money like some companies who in this game, we are not in the valuation game, nor are we in the game of burning money, our objective is to give affordable solutions therefore we try localization based on certain define volumes and



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because got a very good base on technology and know how, as I had said Bosch has everything other than cell manufacturing, we will fill in our portfolio based on what our parent offers for Indian markets and go for define bets so that is our objectives. Does that answers.

Viraj Kacharia: Yes, Sir. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to Mr. Annamalai Jayaraj for his closing comments.

Annamalai Jayaraj: Thanks for all the participants. We thank Bosch management for taking time out for the call. We also thank them for providing us the opportunity for hosting this call. Have a good day.

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

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