"Bosch Limited
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Annamalai Jayaraj: Ladies and gentlemen, good day, and welcome to Bosch Limited 2Q FY 2024 Post-result Conference hosted by B&K Securities. From Bosch management, we have with us today Mr. Guruprasad Mudlapur, Managing Director and Chief Technology Officer; Mr. Sandeep, Joint Managing Director; and Ms. Karin Gilges, Chief Financial Officer. At this point, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the management presentation opening remarks. Over to you, sir.

Guruprasad Mudlapur: Thank you, Jayaraj. Good afternoon, everyone, and thanks for being part of this call. Today, I'll start with a brief on the macroeconomic policy followed by an automotive market update and then walk you through our financials. Finally, I'll end with the highlights of the quarter affecting our business.

As per recent IMF report, the global economy is expected to grow at 3% in 2023, down from 3.5% in 2022 and advanced economies to grow by 1.5% in '23 from 2.7% in '22. With this backdrop, Indian economy is doing well and expect it to grow between 6% to 6.5% in financial year '23, '24. More importantly, our inflation remains controlled and the financial sector is resilient.

Next slide, please. Q2 FY '24 presented a mixed picture -- mixed performance with positive year-on-year growth in the passenger vehicle, three-wheeler and commercial vehicle segments, while two-wheeler and tractor segments experienced a decline. Despite the decrease in two-wheeler volumes, there are signs of recovery in both domestic and export markets. Inventory buildup ahead of the festival season has supported volume performance in Q2 FY '24.

Sports utility vehicle segment maintained strong dispatches due to efficient order book execution and supply chain improvements. However, there was a moderation in demand for lower-end passenger cars. Among all segments, medium and heavy commercial vehicles are in a favorable position, driven by demand -- better demand in underlying industries and healthy fleet utilization levels.

Light commercial vehicle volumes saw a marginal growth attributed to highways, while tractor volumes declined due to erratic monsoons in key regions and a high base from the previous year. three-wheeler volumes show positive growth, indicating a return to full normalcy and demand.

Looking at year-on-year production volumes, there was approximately 19% growth for medium, heavy commercial vehicles, 6% for PV, 16% for three-wheelers, 5% for LCV. However, two-wheeler volumes declined by 1% year-on-year and tractor volumes saw a significant drop of 10% year-on-year in second quarter of '24.

Let's look at the automotive outlook for '23 and '24. Next slide, please. In this slide, we have illustrated the market trajectory from the peaks of 2018 through the challenges posed by COVID to the subsequent recovery. Year-to-date, volumes indicate a notable shift with most segments surpassing their previous peaks and achieving record levels. PC, LCV, tractor segments are expected to particularly excel, surpassing the previous peak sales, while other segments are steadily recovering, demonstrating positive quarter-on-quarter growth.

Looking ahead to 2024, the election year factor and historical trends suggest restrained growth in the automotive industry. The erratic monsoon of '23 may have some impact on the rural sentiment. Nevertheless, the underlying economic conditions remain robust, and the overarching India growth narrative remains unchanged. We anticipate for the upcoming year, a moderate growth trajectory attributed to the election year dynamics, high baseline set in the current year and the impact of erratic rainfall patterns. However, the global headwinds to be monitored closely.

Let's look at how the company has performed in the July to September '23 quarter compared to the July to September '22 amidst the above-mentioned factors. Next slide, please. Sector-wise sales, the Mobility Solutions sector now. Mobility sales have grown by 11.7% in Q2 FY '24 as compared to Q2 FY '23. 12.3% growth in product sales of Powertrain Solutions is driven majorly due to growth in HCV and passenger car segments and due to increase in content per vehicle, mainly in exhaust gas treatment components.

Automotive aftermarket business has grown by 10.2% quarter-on-quarter mainly due to increase in demand for sparkplugs and higher sale of lubricants. Our two-wheeler business sales have also increased by 18.6% quarter-on-quarter due to higher sales for fuel injectors driven by improvement in the overall semiconductor supplies as compared to previous quarter.

Now Beyond Mobility Solutions, sales have grown by 9.9% in Q2 FY '24 as compared to Q2 FY '23. Consumer Goods business comprising of power tools segment has increased by 10.4% quarter-on-quarter, mainly due to higher demand for Bluetooths. Building Technologies grew by 3.9%, mainly on account of higher number of orders for installation of security systems.

The profitability statement. The overall revenue from operations for July to September 2023 stood at INR41,301 million, which is an increase of 12.8% as compared to the corresponding period of previous year, mainly driven by growth in product sales by 11.5%. Mobility Solutions grew by 11.7%, while sales from business Beyond Mobility solutions increased by 9.9%. Income from services mainly comprising of engineering and application services provided to Indian OEMs and also to Bosch Germany. Service income recognized as -- recognized during the quarter was mainly towards completion of BS VI Stage 2 projects for the OEMs.

Other income, operating income mainly includes income from sale lease rentals, export incentives and miscellaneous income. In the current quarter, the increase is mainly on account of higher lease rentals for leasing out of property in the Adugodi premises and incentive received from the government of Maharashtra under the mega project scheme.

The material cost as a percentage of total revenue from operations is at 66.8% in July to September 23 as compared to 64.9% in July-September of 2022. However, the material cost as a percentage of net sales, that is excluding income from services and other operating income, is at 70.1% in July-September 2023 as compared to 67.3% in July-September 2022. The increase is mainly on account of mix impact, the higher share of traded goods, adverse forex impact on imported material and the previous year had certain onetime credits that has provisions written back, which were no longer required.

Employee costs. Employee costs for July to September 2023 is INR3,355 million as compared to INR2,751 million in July to September 2022. Increase is mainly on account of year-on-year salary increases. Also, previous year had certain onetime credits.

Other expenses stood at INR5,449 million, 13.2% of total revenue in July to September 2023 as compared to INR5,781 million, 15.8% of total revenue in July to September 2022. The current quarter expenditure has decreased mainly on account of following: lower spending on new businesses on account of sale of Project House Mobility Solutions business, lower onetime technical access fee in current quarter for localization of ECUs and common rail injectors.

Depreciation for the current quarter is at INR1,013 million, 2.5% of the revenue, as compared to INR919 million, which was 2.5% of the total revenue in July to September 2022. Increase in depreciation in current quarter is on account of additions during the year, mainly in buildings and plant and machinery.

Operating profit. With this, the operating profit stood at INR3,900 million in July-September 2023 as compared to INR3,392 million in July-September 2022, which is an increase of 15%. Other income primarily comprises of interest on fixed deposits, intercompany loans, change in market value of mutual funds. The other income has increased from INR1,497 million in July-September 2022 to INR1,542 million in July-September 2023, mainly on account of increase in interest income.

PBT and PAT. For the quarter ending July-September '23, your company posted a profit before tax before exceptional item of INR5,320 million as compared to INR4,870 million in July-September 2022. As a percentage of total sales from operations, the profit before tax before exceptional items stood at 12.9% of total revenue in the current quarter. Profit before tax after exceptional items stood at INR13,170 million in July-September '23 as compared to INR4,870 million in July-September '22. As a percentage of total revenue from operations, profit before tax after exceptional items stood at 31.9% of total revenue in the current quarter.

Profit after tax for the quarter ended September '23 stood at INR9,989 million, which is 24.2% of total revenue from operations. Profit after tax in July-September '22 was INR3,724 million, which is 10.2% of total revenue from operations. The profit after tax for the current quarter includes gain on sale of our Project House Mobility Solutions business amounting to INR6,054 million net of tax.

On the technology front, next slide, please. On the technology front, this quarter we commenced on-road trials following the development of our hydrogen ICE engine project and post receiving permissions from the Ministry of Road Transport and Highways.

Engine calibration activities to meet the BS-VI Stage two norms have begun. Trials are primarily taking place in -- on Bangalore Roads and TAAL, which is the Hosur Road airstrip. We will keep you updated on any new developments on this topic.

Next slide, please. We also wanted to give you an update on the work Bosch Limited has been doing around CSR. Since April 2023, a total of 8,000-plus volunteer hours were completed, involving 900 volunteers, of which 650 are from Bosch and 250 were from non-Bosch volunteers. For the second quarter alone, we have achieved 2,750-plus hours comprising of 40 activities.

The activities included tree plantation, lake rejuvenation, animal welfare, World Youth Skills Day, environmental projects, mentoring programs, school painting, medical facility enhancement and assistance and so on. By December '23, we will cross 100-plus activities across all locations. The Bosch leadership team also took part in many of these activities.

Next slide, please. Thank you all for your contribution and for listening patiently through the call. We will now address your queries. Thanks again and open for your questions.

Annamalai Jayaraj: The first question is from Pramod Kumar.

Pramod Kumar: On the electric vehicle business in India, especially on the two-wheeler side, where we are seeing the market has kind of bounced back pretty well after the subsidy cuts, I'm guessing more product introduction by OEMs and everyone's talking about ramping up volumes. So if you can just share any update there in terms of how we are doing in terms of the category market share on electrification? And how does it compare versus our ICE portfolio? If you can just help us understand that, first, sir.

Guruprasad Mudlapur: My MD Sandeep will take this up.

N Sandeep: On the electrification front, I think your observation is right that post subsidy adjustments and changes, the two-wheeler demand has kind of recovered. On the passenger cars, we see a consistent demand of the EV cars. So we will continue to focus on our portfolio engagement in both these segments, and we will watch how the market goes before we can get into more specifics on portfolio enlargement.

Annamalai Jayaraj: Pramod, are you on line? I think he has dropped out, I think. Next question is from Gokul Maheshwari.

Gokul Maheshwari: Gross margins, while you mentioned the fact that there has been deterioration on account of inferior mix, but we've had a fairly benign cost environment with respect to the commodity prices and we are primarily trading, which traded percentage has gone up dramatically over the last few years. So not for the shorter term but more where do you see the margins coming back in terms of your localization program and trying to improve your gross margin profile? Because it's like nearly 10 percentage points lower than your longer-term averages. So if you can just give us sort of a path in terms of how do we recoup our prior gross margins?

Karin Gilges: Okay. Karin speaking. Yes, the gross margin, as already mentioned by my colleague Guru, we see currently, and as you already rightly mentioned, an increase in the share of the traded goods. This is partially coming out of the what we see the change in the content of the vehicles, especially also in the heavy commercial vehicles. This is the exhaust gas treatment. Good news in the heavy commercial vehicles, we have last year localized the injector. We are going currently ahead with the trial part of this injector as a very important step. And in the future, we are currently also planning on making the further steps in the direction of the exhaust gas treatment.

We have another effect which we see, and this is a change from the conventional combustion engine to the common rail combustion engine. There we have a general higher share in the material of the total costs in the common rail systems. This is based on the technology, let's say, so a lower value-add share. And also in the common rail, we have picked up already from below the 50%, and now this year we will end up at about 68% localization of the components, and we will go ahead to come up to a decent localization share also in the common rail systems.

Of course, all these activities will support our gross margin in the future. And this is one of the priority topics is localization of finished goods, localization of child parts and localization of components here in India.

Gokul Maheshwari: So should I assume that the gross margin improvements is given that the localization benefits are coming, and coming sooner? The improvements in the gross margin should be reflected more in the next forthcoming quarters rather than forthcoming years given that we've already made some progress over here?

Karin Gilges: Yes. So this is -- for sure when we talk about the localization, then this is not in the next quarters. So we are going ahead, but doing a localization with all the quality releases, with all the cross-checks with the customers releases, etcetera. And this is also quite complex technologies, especially in the common rail and also in the exhaust gas treatment. So we are talking about midterm.

Gokul Maheshwari: Would you be able to quantify the capex budget for FY '24 and '25?

Karin Gilges: For the current -- for the next year, we are estimating a capex of 3.5 billion. And for the year '25, we are currently in the middle of the midterm planning.

Annamalai Jayaraj: Thank you, Gokul. Next Mr. Jinesh, you can unmute and ask your question.

Jinesh: Question is on the localization itself. So you talked about localizing EGT components as well. So that will be done through Bosch entity or it could be done at the vendors level? What I'm trying to understand is would that lead to lower share of traded goods, particularly on the EGT side?

Karin Gilges: Yes.

Guruprasad Mudlapur: Yes. The answer to both is yes.

Jinesh: Okay. So Bosch would be localizing EGT components. Got it. And secondly, you alluded to the fact that we've already reached 68% localization for common rail components. This -- we are looking to take it up to 100% or certain components will still be imported?

Karin Gilges: 100% we will not reach. We even have in the conventional -- and please do not underestimate localization; even in our lovely A-pump, which is for decades already here in India, we are at 95%. So the 100% we will not reach. But we will try to do everything to localize as much as possible here in India. But certain things also volume-wise makes sense to import.

Jinesh: Sure. That was highly appreciated. And in this quarter, we saw almost 19% growth for our two-wheeler segment business. If I look at the underlying industry, production grew sub two -- production in fact declined sub 2%. So what led to such a strong growth for Bosch in a weaker industry growth?

N Sandeep: This is Sandeep speaking. I think out of the total growth or degrowth of the two-wheeler segment, we need to segment the different categories. There is a higher distress in the commuter segment where our play is rather low. But in the premium part of two-wheelers, the market has done better and so have we. That explains the reason why there is a disconnect between our growth and the industry growth numbers.

Jinesh: Got it. Got it. I have few more questions, but I'll fall back in queue.

Annamalai Jayaraj: Thanks, Jinesh. Pramod Kumar has again joined. Pramod Kumar you can unmute and ask your questions.

Pramod Kumar: Can you please provide us an update on the PLI scheme? If there's any progress which is being achieved there? And if yes, what kind of components are we getting the approval from the government? And when can we expect the benefits of the same kind of kicking in? And as it normally happens with such programs or such benefits, will you be also sharing some of these benefits with your customers or would you expect the benefits to be largely retained at the Bosch end? So if you can just help us understand the PLI bit more in detail, that would be really helpful.

Guruprasad Mudlapur: Yes. So I'll not get into every specific part of your question, but I'll give you a general answer on PLI. Yes, we are -- we have applied and qualified for PLI. There's a lot of echo; could you please mute?

Pramod Kumar: Sorry, I'll mute myself, but the problem is I can't unmute again, if I have a follow-up. So I'll request Jayaraj to...

Guruprasad Mudlapur: You can stay online. Then it's okay. Yes, let's continue. So in general, we have qualified for PLI at Bosch Limited. We are planning to bring in lots of local manufacturing, thanks to the PLI benefit that occurs as a consequence. We will, of course -- as quarters go by, we will keep you updated on what has been the benefit of this, which product categories, which segments and how this is going to be dealt with. In general, we intend to keep the benefits with us and also share where required with the customers, but this is not totally finalized as of now and we will update you as we move forward.

Annamalai Jayaraj: Thanks, Pramod Kumar. Next, we'll go to the next Pramod. Pramod Amthe, you can unmute and ask your question.

Pramod Amthe: So the first question is with regard to the royalty, which you said you have paid lesser for ECU and the injector localization. Can you specify, I didn't get you in the other expenses?

Guruprasad Mudlapur: Royalty. The question is on royalty.

Pramod Amthe: You have called out that in the slide saying that your other expenses are lower because of some localization program on the ECU and injectors.

Karin Gilges: Okay. So you are referring to the P&L to the other expenses, yes?

Pramod Amthe: Exactly.

Karin Gilges: Okay, got it. So we have a different effect in the other expenses. One effect is we have the sales of business of the mobility platform. And therefore we have reduction in the spending for this project, let's say. This is -- which we see now in this quarter. Then we had in this quarter the reduction in the onetime cost of technical access fees. This is, let's say, depending on localization, depending on the product mix we have, we have this technical fees. But this is, if we compare it to the last quarter, we see here a reduction. Then we had as -- we have real cost saving measures. That means this is a performance program.

Also, we have that we are looking frequently in our cost, in our cost categories. And we are also making here real cost progress. And the fourth is that we also see a reduction due to better fixed cost absorption. If we compare it to the past that we are under-proportional in our variable costs, if we are looking -- in our fixed cost, sorry, under-proportional to the growth in our revenues.

Pramod Amthe: Sure. And the second question is with regard to sale of business. What implication it will have on your sales and EBITDA because of this sale of business?

Guruprasad Mudlapur: This has been explained in the past on what is the rationale and why we sold it. You want comment on the onetime effect that has come in?

Karin Gilges: So -- but perhaps we have to explain first the top and the bottom line. So this was actually in the last two years to three years where we explored the mobility platform here in India, and we made investments via the other expenses into these platforms. Do we now see a huge effect in the top line, means in the revenues? No, we are selling the business. In the bottom line, we see it in this quarter under the onetime expense or exceptional items where we see the sale of the business below the profit before tax.

Pramod Amthe: So that's the Hinduja entity which you sold, right? The energy...

Guruprasad Mudlapur: That's the Project House Mobility Solutions business.

Annamalai Jayaraj: Thanks, Pramod. Pramod Kumar, I have unmuted your line again.

Pramod Kumar: A follow-up on the commercial vehicle side because we're getting different views here. Some of the larger peers on the component supply chain side have started to call out a peak for the industry now. And some of the OEMs have also started to talk about the flattish trend emerging from 4Q. So in that context, given that you have exposure to all of them and across all listed, unlisted and across tonnage, what are your thoughts on the commercial vehicle space as we go forward from here?

N Sandeep: I think on commercial vehicle there was this peak, which we saw the industry getting to in 2018. And then subsequently we have had a continuous downturn due to several factors, which have been explained in the earlier discussions as well. But now we see a turnaround, albeit in a very good base. It is a slow recovery and we have to basically keep a watch on the effect on larger investments, which will happen in the infrastructure space. So we will keep a close watch on this industry. Yes, you're indeed right that our exposure to this industry is very sensitive and high. So we'll keep a very close watch on it. So at the moment, we see a slow but sustained recovery.

Guruprasad Mudlapur: It's good to understand that there are some structural changes in the logistics sector in terms of how India moves goods. And as a consequence, for example, there's now FASTag, there are better roads, better infrastructure. And of course, a good amount of cargo is now moved on railways. But at the same time, there are higher tonnage trucks plying on our Indian roads, unlike in the past. So there are many changes that are happening all at once.

And so my colleague already explained that we'll keep a very close watch on how the market develops over the coming years. Our own content per vehicle in this category is also increasing. So we have to bring in multiple factors in, and we will see how the market develops moving forward.

Annamalai Jayaraj: Thanks, Pramod. Next is Mr. Viraj.

Viraj Kacharia: I just got three specific queries. First is on the contribution margin. So if I compare sequentially, right, the share of traded goods was, say, somewhere around 67% is now close to around 65%. And if I look at the environment which we are in, in terms of the raw material, it's one of the most benign environment. And so -- I mean I'm still not able to understand the mix part.

Or is it that other than the mix in the past we used to be quite strong in terms of the contracts, in terms of the RM recovery or FX cost recovery? So is it that post BS-VI the terms of the trade are no longer that strong as what it used to be in a pre BS-VI environment. Just trying to understand on the contribution part. So that is one.

Second is on the capex. So at the AGM also we talked about upwards of INR400 crores to INR600 crores kind of a capex, and that was including PLI. But if I look at the first half, we've just done a capex of, say, INR105 crores. So how should we understand the capex, if I have to understand in the sense of the localization, which we are trying to achieve. So if I have to look at next, say, three years or four years, what is the quantum of capex we would have to do to achieve those kind of capex-- those kind of localization.

Karin Gilges: You would like to start with the recovery?

N Sandeep: Sandeep speaking. I will just pick up the first question of yours with regards to the -- how do you say, the...

Viraj Kacharia: Contribution margin.

N Sandeep: Yes, on the contribution margin and the recovery of economics, I don't think that there is, on a contractual basis, a difference between a pre BS-VI or a post BS-VI. So we do have coverage for raw material recovery, indexing, etcetera. What we have seen the last 12 to 18 months is a rather disproportionate increases in the cost driven by logistics costs, wages costs, energy costs, semiconductor-related costs. So that is putting a lot of distress on the cost part of it, while we are also discussing with customers regarding this additional recovery. So I don't see it as a contractual issue but rather a disproportionate circumstances we are passing.

Viraj Kacharia: Just a follow-up. What is the extent of that additional cost, which is still yet to be recovered? I mean the reason why I'm asking is if I look at the end OE space, you talk about CV, passenger vehicles, two-wheelers, across the board these are reporting one of the best contribution margins and the commentary is for the -- on an improving trajectory. But when I look at a player like us who offer a very strong technology-oriented product, the same is not yet reflected in terms of the recovery part.

N Sandeep: I think the extent of exposure, of course, depends on category to category, domain to domain. So there was really no one number which represents that. Of course, you are right that on a -- if we consider a vehicle manufacturer, possibly he has a lot more avenues and ways and means for recovering cost impacts from the market compared to a Tier 1 supplier like us. So that's a continuous challenge. So we will be faced with this also the coming quarters and then we will see how to navigate our position in the market.

Viraj Kacharia: On capex?

Karin Gilges: Yes, then I would go for the capex. And the capex which is planned for the year '24, I think you were referring to the next year to look a little bit into the future, which we are at 3.5 billion, 3.6 billion. This is mainly in the -- in our plants. And this is really -- if we look into the localization, this is supporting our further localization strategy. If we go into the common rail, into the exhaust gas treatment, this is where we now set up the plants for the future. So more or less we have -- partially, of course, we have to partially invest also further in our buildings. But the main part will go into the machinery in all of our production plants.

Viraj Kacharia: So the question was, to achieve, say, the localization of, I mean, over a period of time, 90%, 95%, what kind of a capex that would entail? Just trying to understand the intensity in terms of spend that will require.

Karin Gilges: So to reach 90% to 95%, this is really midterm. And therefore, we cannot give you now here the guiding figure for this. What we are looking is into the midterm planning, and this is our planning how we would like to go ahead with localization. But the figure I can give you today or for the next year, what we have planned and agreed to invest in capex.

Viraj Kacharia: And any thoughts on the surplus cash? I mean, post the sale of business, it will just add to the overall cash balance. And the capex figure, which you're talking about, even after that cash accrued on the balance sheet, it will just keep on building up further. So any thoughts on the surplus cash? What do we want to do with it?

Karin Gilges: Yes. So as you rightly said, we have a quite good liquidity position. And what we are ongoing looking at is, of course, besides the organic growth and the investment we make include the organic growth, we also look strategically now in the midterm planning into inorganic growth. Nevertheless, we have also to see that we have a transfer in the technology currently plus to have a look how is the market moving in the direction of electrification and hydrogen. So therefore we observe the market. We know that we have a very good cash position. Be assured that we would like to place the right thing in the market for the company.

Guruprasad Mudlapur: So just to reassure you that there is a lot of internal focus on better utilization of cash and putting that to more productive use. We are looking into that seriously. As and when we finalize the plans, we'll get back to you.

Annamalai Jayaraj: Thanks, Viraj. Next is Mr. Senthil.

Senthil: Just one question. Recently, in the EICMA 2023, Bosch has showcased a lot of recent innovations of products on the two-wheeler side, like integrated powertrain, radars and stability control devices. So what could be the relevance of those products with respect to Indian market? And what's the potential over the medium term? So that's my question.

N Sandeep: I think part of the technology what we showcased in EICMA, we are investigating the use-case relevance into India as well. So there are certain topics on powertrain, certain topics on electrification and also on the display units which would be of relevance to India, and we will follow them up with demonstrators, proof of concepts, etcetera, for India. Not all what we showed in EICMA would have direct use-case relevance, but we are checking which of those would bring value and also create traction in the market. We'll keep you informed about it.

Guruprasad Mudlapur: So typically, there is a lag between what's seen at EICMA to what gets into the markets in India, even in premium bikes. So expect that delay, typically three years in most cases, and only some relevant technologies. And also sometimes they are even further localized for the needs of the Indian market and then brought in. So that work is on. We are talking to Indian OEMs about this.

Annamalai Jayaraj: Thanks, Senthil. Next is Mr. Ravi Purohit.

Ravi Purohit: So going back to the question on margins, I think couple of years back we had shed more than 20%, 25% of our workforce, right? We have taken various cost initiatives. And yet after the end of the two-year period, right after all those cost initiatives and everything else, the RM costs have also come off, logistic cost has also come off. If we had not taken those steps, our margins would probably be like low single digits today on the operating level.

It has never happened in our history in Bosch. It's very, very confounding to investors whether is there a problem in our own -- is there a problem with our strength with our competitors -- sorry, with our OEMs which has reduced over a period of time or whether we are -- we have to pay more to the parent or the associate companies from whom we are importing more on transfer pricing.

Somewhere there's a lot of margin that has got lost during this period, and we can't seem to kind of understand. And in the last two years, three years we've also not been able to communicate as to what is the normalized margin that investors should hope to, even on a medium-term basis, right. Each time we have on these calls discussions...

Karin Gilges: Yes. Okay. I'll take it up and then perhaps you can add. So I think these initiatives on the personnel cost side were the absolute right ones. And if you look today at our position, we are in the current quarter in the personnel cost at 8.1% of the revenues, which is a quite healthy number. If we look at the other expenses, with the cost contribution we made and together now also with the selling of the new business, we are back at about 13%, 13.2% of the revenues, which is also back on a healthy.

So if we are looking at the P&L and if we are looking at the revenues, we see two -- we see one thing and these are the material costs. Knowing that we are coming from BS-IV to BS-VI now, and yes we have increased our portion of imported goods of traded goods which we are on the midterm now coming into the next localization wave, let's say, this is what I explained beforehand in the common rail where we have to come up to a decent percentage of localization.

And in addition, it is especially in the exhaust gas treatment, where we have planned already which products we would like to localize here in India and we are now going ahead to make these plannings on the midterm basis.

Guruprasad Mudlapur: I just want to give a general perspective that every time there is a technology transition, be it from BS-III to IV, BS-IV to VI now or another technology standard coming in, there is a dip in the localization effort. And then over a period of time, when the technology is maturing, we increase our localization extent and then reach a very healthy localization content. This is something that's been the practice even in the past, and that's the same trend that's happening today.

There are now increased efforts to get higher levels of localization done at a faster pace. That action is already ongoing. But some of the other effects you see today, which are rather new, are the increases in material costs, increases in many other factors that have come in, which to a large extent will need to be passed back to the OEMs and then recovered and that action is also on. So overall, I think we should be back on a healthy path, so...

Ravi Purohit: Yes. So if I could just extend that further. When we say healthy path and when we say medium term, are we talking of going back to our erstwhile range of margins? Is that something that we should work with? Because we used to make 18% margin EBITDA level in the past. We used to make 45% gross margins in the past.

We are at 33% right now. So there is a huge gap between then and now. So when we say over the medium term we are working, are we -- can you assure investors or at least give some path to investors to say that this 33% will go back to the historic band or it's not going to happen, which effectively would mean that there is something structural that has come down in our business or in the overall operations.

Guruprasad Mudlapur: We don't want to give you an outlook for the future like this. We are working -- all I can reassure you is we are seriously working on multiple elements, and you will start to see the improvements over the coming...

Ravi Purohit: Okay. Sir, for the last 1, 1.5 years, we'd also mentioned a focus on exports, right, growing our exports. We had mentioned them in our annual report, we had mentioned them at various platforms in the last 1.5 years. And we have said that we had fairly large ambition on export, right, taking the export as a percentage of total revenue to mid-teens. So far, we've not seen much happening on that. Can you kind of share some insight into what is happening on the export side? Is it really a sizable opportunity? Is there any serious thing that is happening at the company level on export side?

Karin Gilges: So if you look at the current situation of the exports and if you look at the global economical situation, and as Guru mentioned beforehand, we see the weak European market. We see a weak US market. We know that China is struggling with the growth rates. And I would say we are in a sweet spot here in India. And this is what we also see, we see negative growth in all these areas, especially in the Eastern Europe is Germany, very, very slow.

So therefore we also see -- even in our current low share of exports we saw in this quarter a negative trend in the injectors for the passenger cars, which we usually deliver to Europe, we saw a negative trend. So therefore is export a chance, then I would say in generally, yes. But as long as all other markets are fighting like hell, what they currently do, this is, of course, then not the big chance for us to deliver in any way weak market with overcapacities.

Ravi Purohit: Okay. And Karin, just to clarify, when you mentioned midterm planning, when we say midterm, are we talking of one year or two years? Or are we talking about like more than four years to five years?

Karin Gilges: We are talking four years to five years.

Annamalai Jayaraj: Thanks, Ravi Purohit. Next is Mr. Priya Ranjan.

Priya Ranjan: Yes. So in terms of technology road map, I think the MD has showcased in one of the slides that hydrogen ICE, the preparation and the trial run, etcetera. So in terms of our technology road map as well as priority in terms of the new technology, where are our major foot right now, our focus is on that front. And in terms of, is hydrogen ICE much bigger priority than going to probably the electrification, if you can just throw some light on it?

Guruprasad Mudlapur: No, I wouldn't say that we prioritize one over the other. Both are in very different segments, and both have different needs in each of these segments. Currently, we see hydrogen ICE as an upcoming technology which will be deployed beyond '26 onwards, towards '26 to 2030, and we are preparing ourselves towards that.

Electrification is there in pockets in different segments already today, but will not be a dominant one in heavy commercial vehicles. So we have hydrogen ICE in those areas. And electrification is a dominant technology for the future in two-wheelers, three-wheelers and passenger cars, and we are also working and preparing ourselves for that. So these are two different categories and no need also for us to internally prioritize on any of them. We are working on all of that.

Priya Ranjan: Okay. Got it. Good to hear that. And so to achieve all these technologies -- so one of the participants was earlier mentioning about the capex. So one -- I mean, so far, the capex has moved towards -- driven towards localization and the machineries and all. So when we look at these technologies, do we require -- really require to step up the significant jump in the capex going forward, as you also mentioned that we are evaluating how to best use -- put use to the cash which we have in the balance sheet. So I mean if you can throw some light in terms of the directionality in terms of capex. So is it going to significantly increase because you will have new technology will keep coming in?

Guruprasad Mudlapur: See what has been showcased is the capex plan for 2024. Of course, for other technologies that we introduced and also get into localization and manufacturing like electrification or hydrogen or other things which come in the future, there will be more capex required. That's clear. And we are looking into that and as and when we have further updates on that, we'll certainly get back and update you.

Priya Ranjan: Sure. And in terms of -- lastly, in terms of the overall technology, not only on the powertrain side but also on the vehicle side, like you said, the new technologies or the new smart vehicle system, etcetera, like we have the camera-based viewing system, etcetera, so what is the kind of thought in terms of Bosch India? I mean because we have this technology globally, but I don't think we have a meaningful presence in India for all of these technologies.

So if you can help us understand. Are we looking to bring those technology, because the technology gap gradually is going down, I mean, between, say, the developed market and the developing countries like India. So I mean the technology earlier, the gap between technology was probably a decade. Now it's shrinking to say, two years, three years. Maybe with the smart vehicles and all, it will be even lesser than that, so...

Guruprasad Mudlapur: So let me start, and I'll let my colleague Sandeep answer after that. See, in terms of technology, we have a global portfolio of these products and technologies which are offered to Indian OEMs. We, of course, also do Indianization of these technologies as and when required and offer them to that -- to the OEMs.

What you brought in as examples may not necessarily be in the portfolio of Bosch Limited, and then it doesn't matter whether that's required or not. But in any case, whatever we have -- as a general rule, whatever we have as technology globally is available for Indian OEMs and further customization of that or even local development or local variant development for Indian OEMs is always done in India and offered to the OEMs. You want to add anything, Sandeep?

N Sandeep: Well, I think you have covered most of it, Guru. So while these portfolios necessarily not be within the Bosch Limited portfolio, but on a bigger mobility scale -- of course, there are technologies which is getting adapted like Guru, mentioned. So this could be in the area of drive-assist or starting-assist or automatic emergency braking or driver [on leave] etcetera, these are things which are being worked on.

Annamalai Jayaraj: Thanks, Priya Ranjan Due to time constraint, we'll take the last question from Basudeb? Basudeb we could not hear you. Can we go to the next question, sir, or you want to close, sir?

Guruprasad Mudlapur: We can take one last question and close.

Annamalai Jayaraj: Okay. We'll take the last question from Mr. Rajesh.

Rajesh Ranganathan: My questions regarding the exports and margins were exhaustively discussed with previous participants. I wanted to clarify on EGT two things though, from your answers. Regarding EGT, from your answer, am I to understand that as and when EGT is localized, it would be part of the listed entity in terms of its sales and margins and not be a traded good?

Karin Gilges: Yes, you are right.

Rajesh Ranganathan: Okay, because there was some uncertainty about it earlier. So thanks for clarifying that.

Karin Gilges: Yes. So we are currently importing from both group companies. We are importing and we have it as traded goods according to the transfer price agreements based on arm's-length, of course. And if we are localized, we localize in the listed company and therefore we have then also the benefit in the listed company of localization. Yes, you are right.

Rajesh Ranganathan: Okay. And the second question was related to, when we import for traded goods, we have a contract due to transfer price if it's internally, or if it's externally we have a procurement price. And then, therefore, this gap that we have in our inability to pass on costs, it's not just about the competitive environment here. It's about -- it's a two-way agreement, right? We are buying from somebody, we're selling to somebody we are just a trader.

So if at all, there is a gap in maintaining our margins, it should be temporary in nature. Is that right? Or have we made a mistake in the contract and somehow we are not able to -- that we have agreed for price increases on a buying side but somehow not penciled that in our selling.

Karin Gilges: No. If we -- if you import today, then of course, you buy something, you trade it and you sell it. Localization is then that we, first of all, localize the value-add part. Well here in India, of course, in the value-add competitive, highly competitive, cost competitive. And in addition, as the second step is then, as I explained in one of our meetings before, that we usually start this assembly and then we start to go ahead with the child parts, we start the localization of the supplier. And this is all part of the whole story that we try to localize as much as possible value-add plus material here in India because on the long run, this is how we maintain our margins.

Rajesh Ranganathan: Maybe I didn't explain my question clearly. What I meant was, currently we are having a gap in passing on the cost of traded goods, right? I'm trying to clarify that it's purely a timing gap that in the forthcoming quarters the contracts get automatically adjusted or is it that we made a mistake in the contract and somehow some of these cost increases cannot be passed on as traded goods?

Karin Gilges: Yes. So actually, for the traded goods for the pricing issue and recovery of certain things, my colleagues answered already. What we mean is if we talk about the change in the product mix, if I look at -- if my -- all my products are 100% and we see an increase in the portfolio which is traded, and the only way to balance it is that we go ahead strong in the localization.

Guruprasad Mudlapur: So just to answer quickly and close this, we do not have issues with contract, and we do not have any such things. Costs will be passed on and recoveries will happen, but there are processes behind it. And OEMs also ask for a lot of clarifications, justifications and so on. And this is work in progress today. And the real cure for this issue is having much higher localization effort than what we have today. And that is the effort we are putting in. Contractual passing on, of course, will happen and recoveries will happen as per the contracts and there is no issue with that.

Annamalai Jayaraj: Thanks, Rajesh. On behalf of B&K Securities, we thank all the participants for joining the call. And thanks to Bosch management for taking time out for the call and giving us the opportunity to host the call. Have a good day.

Guruprasad Mudlapur: Thank you very much.

Karin Gilges: Thank you. Bye-bye.