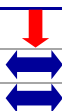


Estimate change

TP change

Rating change



Bloomberg	BOS IN
Equity Shares (m)	29
M.Cap.(INRb)/(USD\$)	576.2 / 6.9
52-Week Range (INR)	20932 / 16309
1, 6, 12 Rel. Per (%)	2/-5/7
12M Avg Val (INR M)	473

Financials & Valuations (INR b)

INR b	FY23	FY24E	FY25E
Sales	149.3	171.0	187.5
EBITDA	18.1	20.6	26.0
Adj. PAT	14.2	16.6	20.3
EPS (INR)	483.0	562.1	687.4
EPS Gr. (%)	17.0	16.4	22.3
BV/Sh. (INR)	3,734	4,199	4,546

Ratios

RoE (%)	13.1	14.2	15.7
RoCE (%)	17.5	19.2	21.1
Payout (%)	99.4	39.2	49.5

Valuations

P/E (x)	40.5	34.8	28.5
P/BV (x)	5.2	4.7	4.3
Div. Yield (%)	2.5	1.5	1.7
FCF Yield (%)	1.0	0.8	2.2

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	70.5	70.5	70.5
DII	17.1	16.7	16.3
FII	3.6	3.9	3.6
Others	8.9	8.9	9.5

FII Includes depository receipts

CMP:INR19,535

TP: INR18,500 (-5%)

Neutral

Weaker mix and high trading content drag margins

Focus on localization should bear results in the next 4-5 years

- Bosch (BOS)'s overall 2QFY24 performance remained muted, mainly on the margin front, where adverse mix, higher trading content, and weaker FX dragged margins to 11.9% (v/s est. 13%). BOS remains committed to localization, and this would yield results in the medium term, thus aiding margins. However, we do not foresee margins recovering above 15% over the next 2-3 years due to structural changes in the business.
- We cut our FY24E/FY25E EPS by ~5%/2% to reflect: a) slower growth in both auto/non-auto divisions, b) weaker margins. We **reiterate our Neutral rating on the stock with a TP of INR18,500 (based on ~25x Dec'25E EPS).**

Better-than-industry growth in autos

- Revenue/EBITDA/adj. PAT rose 13%/14%/8% YoY to INR41.3b/INR4.9b/INR4b in 2QFY24. 1HFY24 revenue/EBITDA/adj. PAT increased 15%/9%/15% YoY.
- Revenue from the auto segment jumped 13% YoY, whereas non-auto segment revenue rose 8% YoY.
- Gross margin eroded 190bp YoY (-230bp QoQ) to 33.2%. This was due to a weaker mix (decline in tractors), higher traded goods, and forex impact.
- Lower gross margins combined with higher employee costs (+60bp YoY; as a % of sales) were offset by lower other expenses (-320bp YoY; as a % of sales) Hence, EBITDA margin contracted 10bp YoY to 11.9% (v/s est.13%). Lower other expenses were on account of: a) reduced spending on new business (due to the sale of business), and b) a reduction in technical fees for localization in ECUs and common rail injectors.
- Adj. PAT came in at INR4b (v/s est.INR4.5b).
- There was an exceptional gain of INR7.85b due to the business transfer agreement with Automobility Services for transfer of its 'Project House Mobility Solutions' business.

Highlights from the management commentary

- **Segmental performance:** 2QFY24 remained a mixed bag as PV/CV production grew YoY but tractors/2Ws declined.
- In autos, powertrain segment solutions grew 12.3% YoY (outperformance when compared to broader industry, driven by increased content per vehicle, mainly of exhaust gas treatment (EGT) components). The 2Ws business segment grew 18% YoY (v/s industry decline of 1% YoY) mainly on account of BOS's greater presence in premium motorcycles (v/s commuter motorcycles) which grew due to easing of chip shortages.
- The non-auto segment grew ~8% YoY, led by 10% YoY growth in consumer products and building technologies growth of 4% YoY. Going forward, BOS expects the upcoming festival season to see healthy volume growth across categories along with exports recovery.

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Research analyst: Amber Shukla (Amber.Shukla@MotilalOswal.com) | Aniket Desai (Aniket.Desai@motilaloswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- **Focus on localization:** Gross margin remained hit by increased trading content. Currently, EGT's are imported and it is focusing on localizing its child parts.
- It has achieved 68% localization (v/s 50% few years ago) in the CRDI component. However, it does not expect this to go 100% (its legacy product mechanical pump has 95% localization).
- It is targeting a mid-term time horizon (4-5 years) for this localization.
- **Trials of hydrogen truck has commenced** in Bengaluru. It is fitted with a new turbocharger with increase in low end performance. Engine calibration activities to meet BS6 stage 2 are underway.
- **Exports:** There has been a YoY decline for injectors used in PVs which BOS exports to EU markets. EU/US/China markets continue to remain slow.
- **Capex for FY24 would be INR3.5b**, mainly for localization of common rail/EGT child parts. Further, it would be utilized for new machinery.

Valuation and view

- We believe BOS would be outperforming the underlying auto industry growth with new order wins and content increases, though visibility for margin recovery to 15-16% is very low. More importantly, BOS is yet to establish leadership in EV components in the 2W and PV segments.
- The stock trades at ~34.8x/28.5x FY24E/FY25E EPS (vs. 10-year LPA at ~37x). The valuations have been de-rated due to dilution in its competitive positioning as well as increasing risk of EVs. While these negatives are priced in, there are no material catalysts visible for a re-rating of the stock. **Hence, we reiterate our Neutral rating with a TP of INR18,500 (premised on ~25x Dec'25E EPS).**

Quarterly performance (S/A)

Y/E March	FY23				FY24E				FY23	FY24E	(INR m)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE
Net Sales	35,444	36,616	36,599	40,634	41,584	41,301	42,455	45,682	1,49,293	1,71,022	43,207
YoY Change (%)	45.1	25.5	17.7	22.7	17.3	12.8	16.0	12.4	26.7	14.6	18.0
RM Cost (% of sales)	64.6	64.9	60.0	64.0	64.5	66.8	61.0	60.3	63.4	63.1	63.3
Staff Cost (% of sales)	7.6	7.5	7.4	8.1	7.4	8.1	7.6	7.2	7.7	7.6	7.2
Other Expenses (% of sales)	15.6	16.4	23.3	15.9	17.9	13.2	20.0	19.1	16.8	17.3	16.5
EBITDA	4,495	4,311	4,037	5,224	4,679	4,913	4,851	6,136	18,067	20,579	5,619
Margins (%)	12.7	11.8	11.0	12.9	11.3	11.9	11.4	13.4	12.1	12.0	13.0
Depreciation	648	919	1,083	1,206	921	1,013	1,150	1,222	3,856	4,306	950
Interest	36	19	20	46	308	122	100	70	121	600	25
Other Income	566	1,497	1,312	1,359	1,875	1,542	1,450	1,271	4,734	6,138	1,300
PBT before EO expense	4,377	4,870	4,246	5,331	5,325	5,320	5,051	6,115	18,824	21,810	5,944
Extra-Ord expense	0	0	0	0	0	-7,850	0	0	0	-7,850	0
PBT after EO Expense	4,377	4,870	4,246	5,331	5,325	13,170	5,051	6,115	18,824	29,660	5,944
Tax	1,035	1,146	1,057	1,341	1,235	3,181	1,222	1,480	4,579	7,119	1,438
Tax Rate (%)	23.6	23.5	24.9	25.2	23.2	24.2	24.2	24.2	24.3	24.0	24.2
Reported PAT	3,342	3,724	3,189	3,990	4,090	9,989	3,829	4,634	14,245	22,542	4,506
Adj PAT	3,342	3,724	3,189	3,990	4,090	4,023	3,829	4,634	14,245	16,172	4,506
YoY Change (%)	28.7	0.1	35.7	13.8	22.4	8.0	20.1	16.1	17.0	13.5	21.0

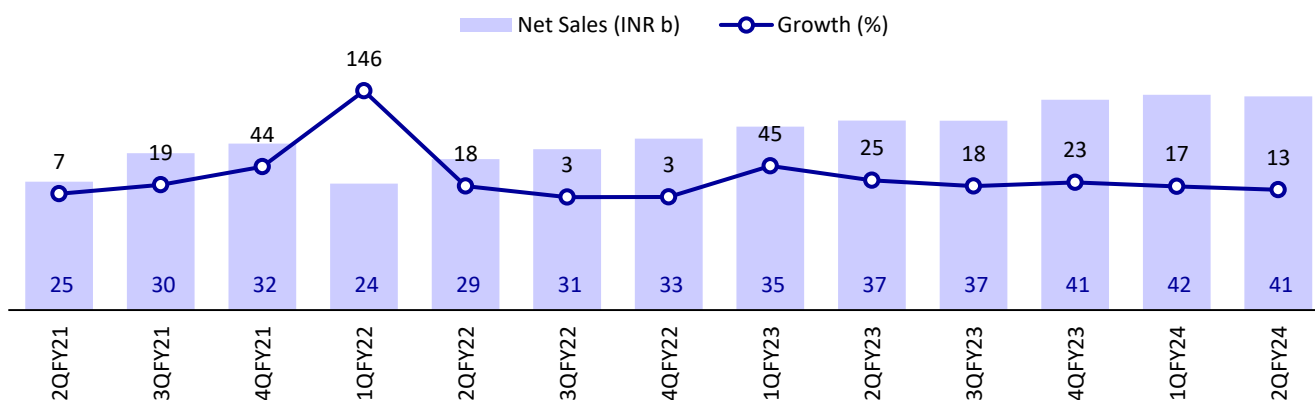
E: MOFSL Estimates

Segmental Mix (INR m)

	FY23				FY24E		FY23
	1Q	2Q	3Q	4Q	1Q	2Q	
Auto	31,092	31,505	32,399	34,165	36,232	35,708	1,29,161
Growth (%)	44.7	29.3	18.2	26.0	16.5	13.3	28.7
PBIT margin (%)	13.6	12.1	11.2	12.1	10.9	12.5	12.2
Contribution (%)	87.7	86.0	88.6	84.1	87.1	86.5	86.5
Non-Auto	4,388	5,237	4,464	6,684	5,424	5,634	20,787
Growth (%)	48.0	5.1	8.6	6.2	23.6	7.6	14.5
PBIT margin (%)	9.8	12.6	11.7	12.4	16.4	9.3	11.8
Contribution (%)	12.4	14.3	12.2	16.4	13.0	13.6	13.9
a) Consumer goods	3,188	3,528	2,547	4,757	3,754	3,897	14,034
Growth (%)	52.2	(0.3)	5.2	(1.1)	17.8	10.5	10.9
PBIT margin (%)	5.8	11.1	6.2	8.9	15.5	7.2	8.2
b) Others	1,200	1,709	1,917	1,927	1,670	1,737	6,753.0
Growth (%)	38.1	18.1	13.3	29.7	39.2	1.6	22.9
PBIT margin (%)	20.4	15.9	19.0	21.2	18.3	14.0	19.1
Growth (%)	45.1	25.5	16.9	22.7	17.3	12.8	26.8

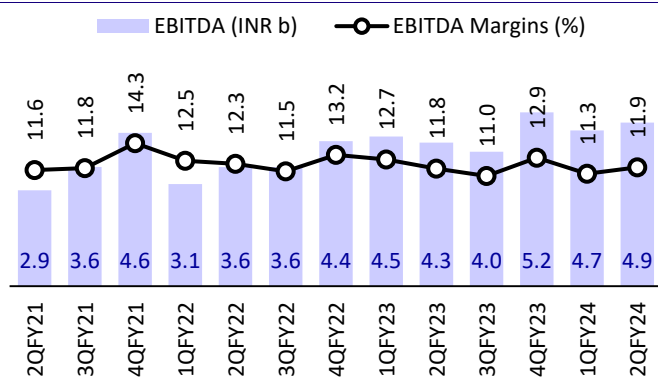
E:MOFSL Estimates

Exhibit 1: Trend in revenue



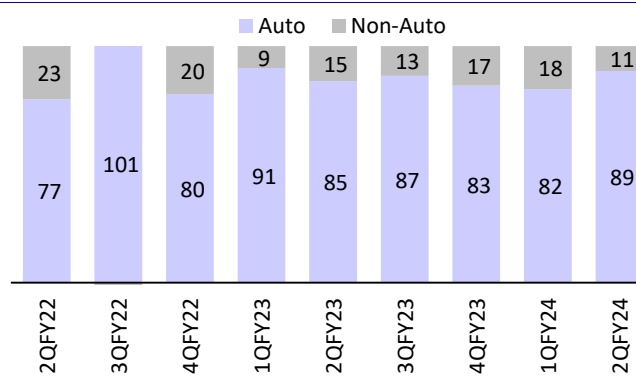
Source: Company, MOFSL

Exhibit 2: EBITDA and EBITDA margin trends



Source: Company, MOFSL

Exhibit 3: Share of Auto and non-Auto in PBIT



Source: Company, MOFSL

Valuation and view

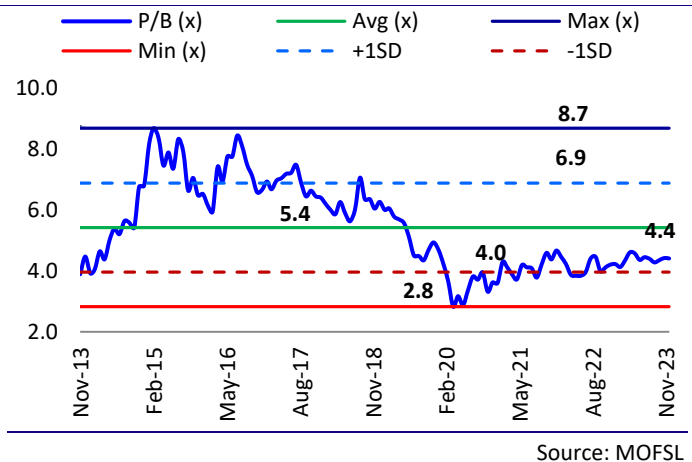
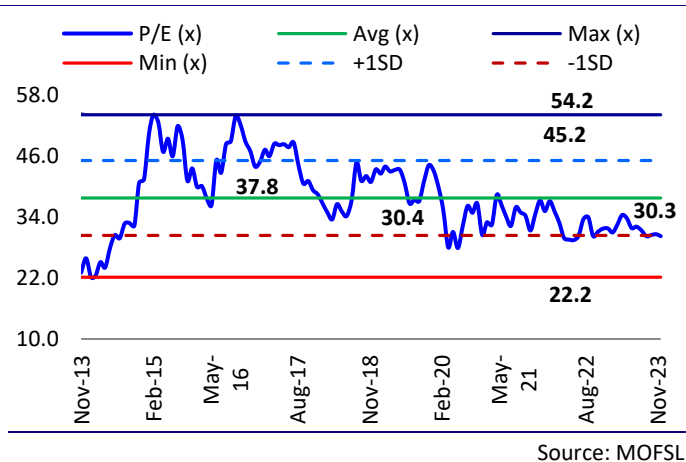
Strong industry positioning; technology focus enables higher growth visibility

- BOS has a long-term strategy to shape the market in key technologies with innovative products and solutions. Its stance of being a technology-agnostic partner with customers, governments, and stakeholders continues.

- Since CY17, BOS has executed 79 BS-VI projects in PVs/CVs with major OEMs. Post the Covid-19 crisis as well, it plans to continue with critical investments in competence development and solutions designed and developed for India.
- In the non-Auto businesses, BOS has adopted a two-pronged approach. It continues to introduce 'fit for the market' products and solutions and plans to increase its 'go to the market' footprint, using both offline and digital platforms.
- The electrification of 2Ws/3Ws opens up new growth avenues as BOS will be better positioned in these segments for EVs. BOS plans to invest INR20b over five years for the localization of advanced automotive technologies (INR10b) and expansion into digital platforms (~INR10b in the mobility marketplace, mobility Cloud platform, etc.). Our estimates do not factor in any material contributions from e-2W/3Ws as the competitive landscape is yet to stabilize.
- With improving localization and operating leverage in FY25E, EBITDA margin will recover to ~13.9%, after falling to ~10.3%/12.4% in FY21/FY22 (vs. 12.1% in FY23). This would result in a 19% EPS CAGR over FY23-25E (on the back of 12% revenue CAGR). We estimate RoE to improve to ~15.7% (from 13.1% in FY23) and RoIC to touch ~25.1% by FY25E (from 20% in FY23).
- We lower our FY24E/FY25E EPS by ~5%/2% to reflect for a) slower growth in both auto/non-auto division b) weaker margins.
- Valuations have corrected in line with its muted earnings over the last four years and a dilution in its competitive positioning. It would be outperforming the underlying auto industry growth with new order wins, though visibility for margin recovery to 15-16% is very low. The stock trades at ~34.8x/28.5x FY24E/FY25E EPS (v/s 10-year LPA at ~37x). The valuations have been de-rated due to dilution in its competitive positioning as well as increasing risk of EVs. While these negatives are priced in, there are no material catalysts visible for a re-rating of the stock. **Hence, we reiterate our Neutral rating with a TP of INR18,500 (premised on ~25x Dec'25E EPS).**

Exhibit 4: Revisions to our estimates

(INR b)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	171.0	174.4	-1.9	187.5	193.3	-3.0
EBITDA Margin (%)	12.0	12.5	-50bp	13.9	14.0	-20bp
PAT	16.6	17.5	-5.1	20.3	20.8	-2.4
EPS (INR)	562.1	592.1	-5.1	687.4	704.6	-2.4

Exhibit 5: P/E and P/B bands

Key operating indicators

Exhibit 6: Trend in sales

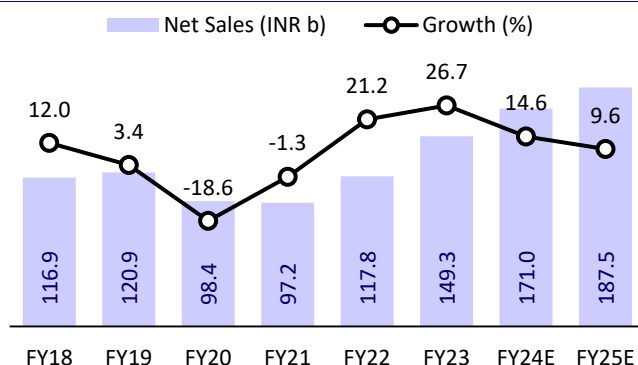


Exhibit 7: Segment mix

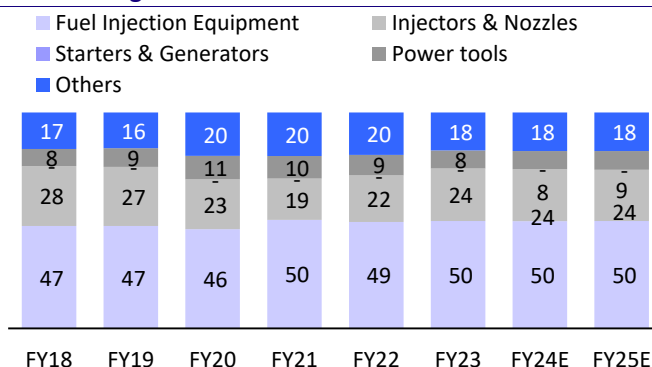


Exhibit 8: Gross margin vs. EBITDA margin

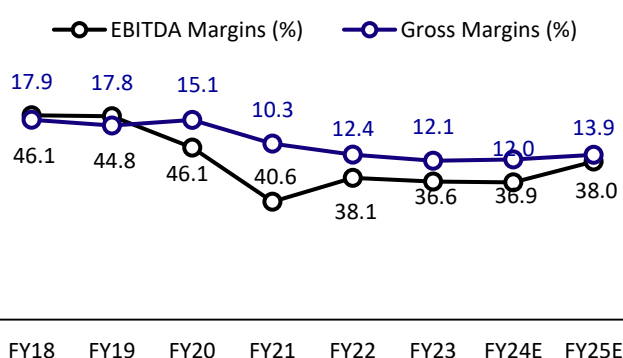


Exhibit 9: Trend in dividend payout

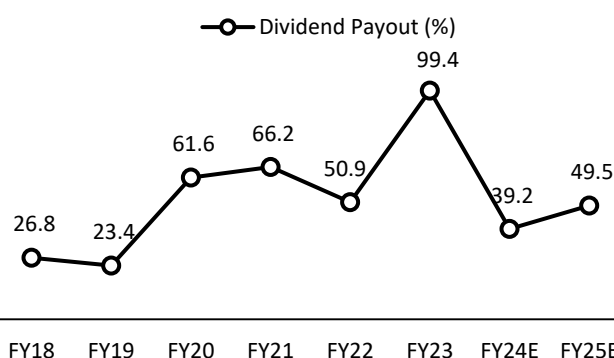


Exhibit 10: FCF and net cash

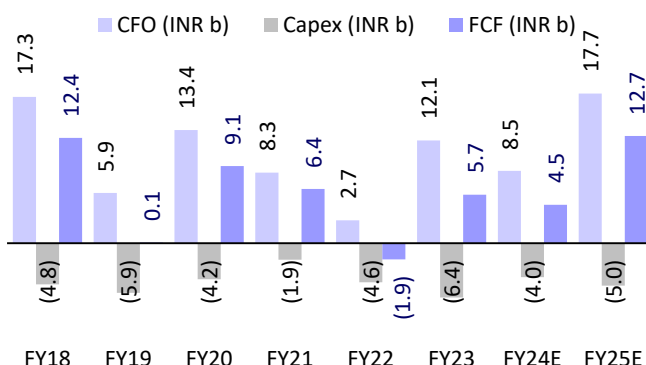


Exhibit 11: Cash, as a percentage of capital employed, stands at ~67%

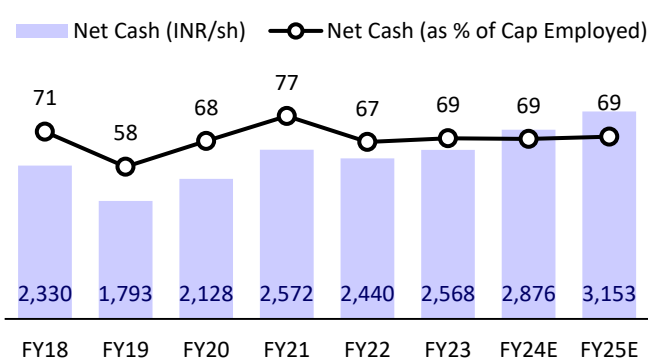


Exhibit 12: EPS and EPS growth trends

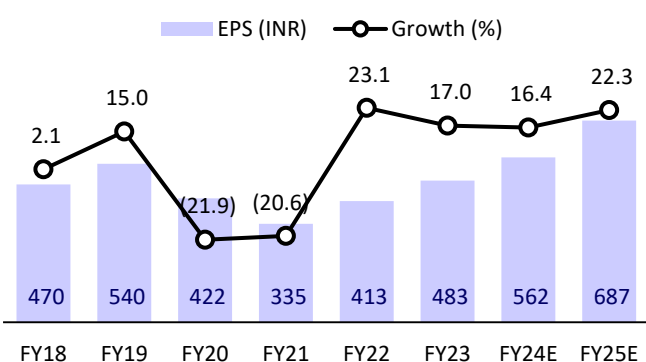
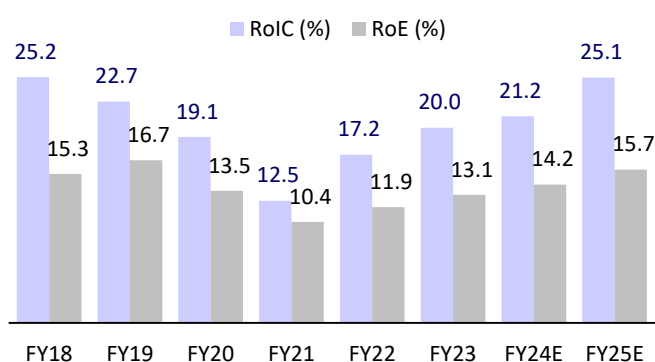


Exhibit 13: Trend in BOS' return profile



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Op. Revenues	1,20,850	98,416	97,180	1,17,816	1,49,293	1,71,022	1,87,518
Change (%)	3.4	-18.6	-1.3	21.2	26.7	14.6	9.6
EBITDA	21,541	14,834	10,039	14,624	18,067	20,579	25,978
Margin (%)	17.8	15.1	10.3	12.4	12.1	12.0	13.9
Depreciation	4,021	3,833	3,414	3,243	3,856	4,306	4,807
EBIT	17,520	11,001	6,624	11,381	14,211	16,273	21,172
Fin. charges	133	102	140	289	121	600	500
Other Income	5,953	5,466	5,040	3,909	4,734	6,138	6,020
PBT bef. EO Exp.	23,340	16,365	11,524	15,001	18,824	21,810	26,692
EO Income/(Exp)	0	-8,416	-5,555	0	0	7,850	0
PBT after EO Exp.	23,340	7,948	5,969	15,001	18,824	29,660	26,692
Current Tax	7,051	3,324	1,630	1,930	4,338	7,119	6,421
Deferred Tax	355	-1,424	-784	899	241	0	0
Tax Rate (%)	31.7	23.9	14.2	18.9	24.3	24.0	24.1
Reported PAT	15,934	6,048	5,123	12,172	14,245	22,542	20,271
Adjusted PAT	15,934	12,452	9,890	12,172	14,245	16,576	20,271
Change (%)	11.1	-21.9	-20.6	23.1	17.0	16.4	22.3

Standalone - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	295	295	295	295	295	295	295
Total Reserves	90,967	92,399	97,927	1,06,584	1,09,827	1,23,522	1,33,767
Net Worth	91,262	92,694	98,222	1,06,879	1,10,122	1,23,817	1,34,062
Total Loans	0	0	0	0	0	0	0
Capital Employed	91,262	92,694	98,222	1,06,879	1,10,122	1,23,817	1,34,062
Gross Block	28,991	34,629	36,339	38,738	42,482	49,137	53,137
Less: Accum. Deprn.	17,338	21,271	23,983	26,623	30,479	34,785	39,592
Net Fixed Assets	11,653	13,358	12,356	12,115	12,003	14,352	13,545
Capital WIP	6,546	4,932	4,928	6,054	3,655	1,000	2,000
Total Investments	40,538	40,415	51,571	55,275	55,536	55,536	55,536
Curr. Assets, Loans&Adv.	63,764	69,928	73,821	76,499	87,619	1,06,968	1,22,596
Inventory	14,443	11,159	12,985	17,293	19,029	21,085	23,119
Account Receivables	15,675	14,131	13,894	15,267	19,029	22,022	24,146
Cash and Bank Balance	12,527	22,560	24,505	17,054	20,569	29,656	37,828
Loans and Advances	21,118	22,079	22,438	26,885	28,992	34,204	37,504
Curr. Liability & Prov.	35,834	40,506	49,514	47,225	52,472	57,820	63,396
Account Payables	15,885	16,050	22,230	22,404	27,253	30,456	33,394
Other Current Liabilities	9,200	8,277	14,171	11,174	12,728	13,682	15,001
Provisions	10,749	16,180	13,113	13,647	12,491	13,682	15,001
Net Current Assets	27,929	29,422	24,308	29,274	35,147	49,148	59,200
Deferred Tax assets	4,596	4,567	5,059	4,161	3,781	3,781	3,781
Appl. of Funds	91,262	92,694	98,222	1,06,879	1,10,122	1,23,817	1,34,062

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)							
EPS	540	422	335	413	483	562	687
Cash EPS	677	552	451	523	614	708	850
BV/Share	3,095	3,143	3,331	3,624	3,734	4,199	4,546
DPS	105	105	115	210	480	300	340
Payout (%)	23.4	61.6	66.2	50.9	99.4	39.2	49.5
Valuation (x)							
P/E	36.2	46.3	58.3	47.4	40.5	34.8	28.5
Cash P/E	28.9	35.4	43.4	37.4	31.9	27.6	23.0
P/BV	6.3	6.2	5.9	5.4	5.2	4.7	4.3
EV/Sales	4.7	5.6	5.7	4.8	3.7	3.2	2.9
EV/EBITDA	26.2	37.4	55.0	38.3	30.8	26.6	20.7
Dividend Yield (%)	0.5	0.5	0.6	1.1	2.5	1.5	1.7
FCF per share	2.6	309.2	217.4	-64.8	194.7	154.2	429.9
Return Ratios (%)							
RoIC	22.7	19.1	12.5	17.2	20.0	21.2	25.1
RoE	16.7	13.5	10.4	11.9	13.1	14.2	15.7
RoCE (pre-tax)	24.6	17.9	12.2	14.9	17.5	19.2	21.1
Working Capital Ratios							
Fixed Asset Turnover (x)	4.2	2.8	2.7	3.0	3.5	3.5	3.5
Asset Turnover (x)	1.3	1.1	1.0	1.1	1.4	1.5	1.5
Inventory (Days)	44	41	49	54	47	45	45
Debtor (Days)	47	52	52	47	47	47	47
Creditor (Days)	48	60	83	69	67	65	65
Working Cap. Turnover (Days)	47	25	-1	38	36	42	42

Standalone - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR m)							
OP/(Loss) before Tax	23,410	10,069	5,671	15,001	18,824	21,810	26,692
Depreciation	4,045	4,445	3,414	3,243	3,856	4,306	4,807
Interest & Finance Charges	-2,769	-2,948	-2,377	-2,096	-2,670	-5,538	-5,520
Direct Taxes Paid	-7,822	-4,612	-2,695	-2,664	-4,031	-7,119	-6,421
(Inc)/Dec in WC	-6,888	10,206	6,320	-9,404	-2,091	-4,914	-1,880
Others	-4,044	-3,799	-1,984	-1,374	-1,752	0	0
CF from Operating incl EO	5,931	13,361	8,349	2,706	12,136	8,546	17,678
(Inc)/Dec in FA	-5,854	-4,243	-1,938	-4,617	-6,395	-4,000	-5,000
Free Cash Flow	78	9,118	6,411	-1,911	5,741	4,546	12,678
(Pur)/Sale of Investments	15,821	782	-5,087	-1,837	8,079	0	0
Others	7,691	-5,267	2,395	6,122	934	6,138	6,020
CF from Investments	17,659	-8,729	-4,630	-332	2,618	2,138	1,020
Issue of Shares	-21,569	0	0	0	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0	0
Interest Paid	-60	0	-16	-150	-62	-600	-500
Dividend Paid	-3,679	-3,731	-3,095	-3,394	-12,092	-8,847	-10,027
Others	0	-259	-271	-287	-240	0	0
CF from Fin. Activity	-25,308	-3,990	-3,382	-3,831	-12,394	-9,447	-10,527
Inc/Dec of Cash	-1,717	642	337	-1,457	2,360	1,237	8,172
Opening Balance	3,627	1,910	2,552	2,889	1,432	3,792	5,029
Closing Balance	1,910	2,552	2,889	1,432	3,792	5,029	13,201

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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