"Bosch Limited Q2 FY 2021 Post-Results Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Bosch Limited Q2 FY 2021 Post-Results Conference Call, hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities India Private Limited. Thank you, and over to you, sir.

Annamalai Jayaraj: Thank you, Neerav. Good afternoon, everyone. I would like to welcome to Management of Bosch Limited, and thank them for taking out for this call. We have with us today Mr. Soumitra Bhattacharya – Managing Director; Mr. Jan-Oliver Roehrl – Joint Managing Director and Chief Technical Officer; and Mr. S. C. Srinivasan – Chief Financial Officer and Executive Director. I will now hand over the call to Mr. Soumitra Bhattacharya for his opening remarks, to be followed by the question and answer session. Over to you, sir.

Soumitra Bhattacharya: Thank you very much, Mr. Jayaraj. And good evening to everyone. So, I would like to first start with hoping that you and your family are safe in these turbulent times. I would also like to give a small brief of the macro economy and the policy highlights of this quarter which affects our business.

According to IMF, the global economy is now projected to contract by about 4.4% in 2020. India's GDP contracted by 24% in quarter one in FY 2021. The economy faced its deepest contraction, which was the worst amongst the G20 Countries, and IMF projects India's GDP to contract by approximately anywhere between 9% to 10% for FY 2020/2021.

The Indian economy has been opening up rapidly since quarter two 2020. And we are seeing a decrease in new cases in COVID in India, and almost all mobility and economic indicators across urban and rural areas have shown signs of steady recovery. While some of this revival in the auto sector can be attributed to the pent up demand and the inventory built up due to the festive season, a sustained recovery across all segments still needs to be seen. The government has passed some longstanding economy reforms that will drive growth in the medium term. However, fiscal push by the government, like GST reform for the auto sector could help in the long-term recovery.

During the quarter, overall automotive market production declined by 6.2%, including two-wheeler segment. Heavy commercial segment declined by 39% due to sluggish demand, excess capacity and lack of clarity on scrappage norms. The passenger car segment declined by only 3%. Demand is expected to rise during the festive season, with preference to personal mobility. The tractor segment increased by 23%. The practice segment continued its double-digit growth trend with a good monsoon, higher minimum support price, MSP, and strong retail demand. The LCV declined by 9%. However, the LCV segment is recovering faster than expected due to ecommerce activities as also last mile transportation, mainly intra-city.

Two-wheeler segment declined by 5% during quarter, but in September 2020 it has also increased by around 15% compared to September 2019. Preference towards personal transportation coupled with channel selling ahead of the festive season is driving an improvement in the two-wheeler. I must add a word of caution for two-wheeler, that festive season will be a defining moment.

Among the other market segments, three-wheeler segment declined by 55%. All of us know, due to COVID-19 precautions, shared mobility has been severely affected. However, in the cargo segment it has shown a faster revival.

Amidst this auto market performance, we will now look at the performance of our company for the quarter. Total revenue from operations at Rs. 24,792 million was an increase of 7.2% compared to the corresponding period of the previous year. The mobility business sector increased by 7.5% percent, which has performed better than the automotive market. Business beyond mobility recorded a decline of 4.6%. The reduction is on account of the decline of the business in solar and security, technologies division which are mainly product driven. Within Mobility Solutions, powertrain systems showed an increase of 6.7% and two-wheeler business continued to witness a double-digit growth during the quarter. The domestic sales during this quarter increased by 7.2%, Mobility Solutions by 9.6% whereas business beyond mobility decreased by 4.9%.

The material cost as a percentage of revenue from operations has increased to 59.4% in July-September 2020 as compared to 55.4% in July-September 2019. The increase is mainly due to unfavorable FOREX variations as also change in product mix. The employee cost has declined to Rs. 3,083 million for July-September 2020, from Rs. 3,349 million in July-September 2019. The decline of 7.9% is mainly on account of transformation, restructuring projects and other HR related measures.

Depreciation has marginally declined by 3.8% in July-September 2020 against July-September 2019, due to the lower additions during the year. Other expenses for the quarter July-September is Rs. 4,112 million as compared to Rs. 3,596 million for July-September, an increase of 40.4%, mainly due to COVID related expenses, Mobility Solutions and other provisions.

Operating profit stood at Rs. 2,084 million for July-September 2020 as compared to Rs. 2,544 million for July-September 2019. The other income has decreased from Rs. 1,015 million in quarter July-September 2020 from Rs. 1,675 in July-September 2019, majorly due to decline in interest income and mark-to-market gain on marketable securities.

For quarter July to September 2020, the company posted a profit before tax of Rs. 3,086 million before exceptional item, as compared to Rs. 4,213 million in July-September 2019, a decline of 27% approximately. As a percentage of revenue from operations, PBT stood at 12.4% in July-September 2020 as compared to 18.2% in July-September 2019.

Continuing the journey on various structural changes to be fit for the future, Bosch Limited has further provided Rs. 4,000 million towards its investment in restructuring, reskilling and redeployment, and other transformational projects. This has been disclosed as an exceptional item for the quarter ended September 30th, 2020. This is the second last tranche which is extended to the workforce for FY 2020/2021. Loss before tax after exceptional item stood at Rs. 914 million and loss after tax stands at Rs. 648 million.

Some other highlights Bosch Limited has also, in its investment of Robert Bosch Investments Nederland acquired 26% in Sun Mobility. This proves the commitment of our parent Robert Bosch in India's growth story, while Bosch India navigates through turbulent times. With this COVID reach, Bosch is focused on enabling electrification basis four pillar approach towards mobility, personalized, automated, connected and electrified. Bosch Limited is constantly evaluating opportunities in providing critical electro-mobility connected solutions to OEMs.

With a focus on making mobility cleaner and convenient, Bosch Limited investment startup Routematic (Nivaata Systems Pvt Ltd), a venture funded enterprise based out of Bangalore, creating urban mobility innovations for corporate transportation. Through this investment, Bosch Limited expands its offerings from being an automatic systems and competent manufacturer to a technology enabler in mobility lifecycle through its digital platforms.

The Indian automotive market has witnessed a V-shaped recovery, with wholesale and production exceeding the 2019 levels for the month of September for the first time since onset of COVID. By the way, colleagues, I would also like to tell you, October has been actually for Indian automotive market but also for Bosch even better than September.

Specific to the commercial vehicle segment, we foresee a strong ramp up in the upcoming six months, of course, on a low base, mainly led by dealer inventory with BS-VI vehicles and robots demand an LCV segment, led by recovery in the e-commerce segment. There has been a gradual pickup of vehicle sales in OEMs, which are stocking up for expected rise in demand during the festive season. Early reports suggest consumer sentiment is picking up, and we expect some positive news for the year to come to an end. However, to take considerable time for the market to reach the high of 2018-2019.

Under these challenging market environments, our short-term focus has been on cost containment, conservation of liquidity position and a positive outlook for our cash reserves, despite separate transformation projects. Given the current market scenario and exceptional measures deployed by the company and the organization, we are cautiously optimistic of not just breaking even but becoming positive for the financial year 2021.

I would like to thank you for your contribution and your patient listening through the call. And I would now like to address your questions and queries.

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

Pramod Kumar: Sir, my first question pertains to the exceptional item, sir. It has been like six quarters now and we have kind of written-off 9.5% of the revenue over this period in exceptional. And just wanted to understand, if you can just help us get a bit more granular colour on the return of the key items under this. So how much of this is related to employee separation or reskilling? And how much of this is basically impairment of write-down of technologies, which you don't think are going to be that valuable going forward? So if you can provide some more colour on that, and also, how long do you expect it to continue? Do you expect this to be a recurring phenomenon for the second half as well or do you expect that we have seen probably project we are almost at the verge of closing this exceptional sale?

Soumitra Bhattacharya: Thank you for the question, Pramod. So the exceptional item of Rs. 400 crores, I have already mentioned in my speech right now, will be followed by one more quarter for the fiscal year 2020/2021, and a marginal amount as compared to Rs. 400 crores. So, the company has taken a very clear call, by design, for what we started as a transformation journey already two years ago, under the 3R program of reskill, redeploy and restructure. So, it is for all these three items on our transformation journey. I had also mentioned, Pramod, last time that we have done it the Bosch way, with 1,000 blue collar workmen taking early volunteer retirement, amongst other expenses. For example, the company is going to spend a lot of money on complete digital fluency for the whole Bosch Group but also Bosch Limited. We are also doing reskilling.

So, bottom-line, we are doing it the Bosch way. It is voluntary separation where it is a matter of restructuring. It is reskilling in a major way for new technologies, including digital. And it is also for redeployment. Finally, I would like to say, the company has upfront put it up. And while having done it, we have ensured that the packages are some of the best in the market, that there are future cash inflows for our colleagues who have taken it. And that we have maintained with ethics and values. Lastly, our cash reserves today stand stronger than pre-COVID. And currently they are around Rs. 6,600 crores. So we have taken care of our cash, we have put up this money, we have shown it as a cleared item. And while having done it, Pramod, this quarter we have given a result of a profit before tax before exceptional item of 12.4% with a growth of 7.2%. Does that give an answer?

Pramod Kumar: Yes, fair enough. And second question pertains to the revenue and the margin profile, because given the way the sequential improvement is happening on the industry as well as product categories, is it fair to assume that the revenue growth, and given the special value-add on the BS-VI, that it should accelerate materially in the second half of the year? And in that context, if you could just explain, what led to the sequential drop in gross margins? Because we are down to 170 bps, again, quarter-on-quarter on the gross margin side. And just want to understand, is it due to because of higher import content on BS-VI or is it initial hit from the commodity prices, which has kind of started to reflect in your numbers, sir? Thank you.

Soumitra Bhattacharya: So Pramod, the matter on the future guidance, that we do not talk. But I can only tell you one thing, that for the quarter October to December, our company has a good order book. I mentioned to you already, October was a very good month. In relation to profit before tax, I already told you, at 12.4%. Our EBIT at 8.5% is a decent EBIT. Of course, we have FOREX fluctuations, but also the aspect of product mix, and especially in the powertrain. As we go along, our company has always believed in localization, so that will kick in at the right time. So in summary, I would say, in a very turbulent year in the history of India and the world, this quarter, the results have been pretty decent. And especially if you look at a cost management, that clearly is showing that we will reap very strong benefits from 2021/2022. But already the impacts on costs are already beginning to show.

Moderator: Thank you very much. Next question is from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: Just continuing on the raw material cost and other expenses, line items. I mean, are there any one-offs in this quarter, in the sense like, did we have to air-freight or import more than expected or anything of that sort, which is impacting the raw material cost being higher this quarter? Or this is more than just a function of product mix?

Soumitra Bhattacharya: So I mentioned already, Sonal, that our content per vehicle is going up in BS-VI. I also mentioned earlier that we have had very good acquisitions. But with BS-VI, when you have increased content per vehicle, you also have certain amount of traded parts, the exhaust gas treatment, or working with other partners. Plus, I mentioned to you that there is a FX impact, all of us know that FX impact was not to less. So, if you take all that into account, where primarily FX impact and a mix impact, and especially on the powertrain system, and you know this company over time localizes. So you will see this for some time, but not for all times to come.

Sonal Gupta: Right. And just on the FX side, I mean, is there a timing issue in terms of like, do we have any pass through arrangements with the OEMs or we have to just negotiate as and when it is next time?

Soumitra Bhattacharya: We do have very good contracts defined. And these contracts, we have been working on these sort of contracts from a long time. So I think the contracts always have to be fair and win-win, and we have that. And, yes, there are certain elements on pass through clauses. But I can't paint a single brush and just say because of that. I will say, first, we have good contracting mechanism. Second, we know that we have impacts on FX in India. And third, I told you, the BS-IV to BS-VI is a very fundamental change for everyone, not just Bosch, especially on the exhaust gas field. And always there will be a variance between different customer-to-customer, so you cannot generalize it. We also have very clear compensation.clauses.

Sonal Gupta: Okay. That's very helpful. And just, I mean, in your opening comments you mentioned that other expenses are up due to COVID related expenses, would you be able to quantify how much of that is because of COVID related expenses?

Soumitra Bhattacharya: I won't get the exact figure, but our company's first focus has been safety and hygiene for all the Bosch employees. And when I say employees, not just the permanent employees, but anyone who is related to Bosch who works for us. So, we have spent a decent amount of money. And we will continue to focus on safety, where we do extensive testing, we do work from home, we do social distancing, we have improved our buses where we carry far higher load, example we carry half the loads of the normal time. So bottom-line is, yes, there has been some COVID expenses. We expect that to come down over time as COVID comes down. The good news is, India is coming down on new cases. And Bosch has been an exemplary company, on focusing on this part. So, there are a couple of one-time items which will not be seen, but that happens time to time, the one-time items. You will see improvement over time also on other expenses.

Moderator: Thank you very much. Next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: Well, firstly, from the revenue perspective, within powertrain if you can give some insights on how the gasoline portfolio performed during the quarter vis-à-vis the diesel?

Soumitra Bhattacharya: Shyam, we do not give breakup between gasoline and diesel.

Shyam Sundar Sriram: Sir, I am not asking percentage. I was asking, if you can give some perspective on the gasoline growth vis-à-vis the diesel portfolio year-on-year within the mobility.

Soumitra Bhattacharya: What I can tell you, Shyam, is, the diesel versus gasoline share for the country. But we don't give the breakup of individually here. So first of all, what I mentioned to you that our mobility business, which is predominantly our powertrain business, that has improved in the quarter by 7.5%, so I am talking about the entire mobility sector business. And of course, in powertrain also its around 7%. So it's equal to better than what the market happened. Number one. Number two, we don't break it up between gasoline and diesel. I had mentioned to you that while the diesel share has been coming down for the whole country, and we are around at 22% diesel, when you look at passenger cars, etc. in India. We have a good share in India on diesel on utility vehicles. So, summary is, our mobility systems division is doing well, our orders are full, we could hope for double-digit growth in the future. And when I say order book are full, I am referring to this quarter, October to December. Then of course, I also mentioned to you festive season will determine, not just for Bosch, but also for automotive sector how we move forward. And I also mentioned you, in the two-wheeler area, in mobility we witnessed a strong double-digit during this quarter.

Shyam Sundar Sriram: Understood, that was helpful. Sir, and the other point is, did mention the product mix, I would presume that by that you mean the gasoline increase and transition to BS-VI, is that what you mean by product mix impact?

Soumitra Bhattacharya: Product mix has multiple areas, it is a combination of aspect of manufacturing and traded, which is a big impact, which for example I gave you on BS-VI has additional content per vehicles by us. And we are seeing that improvement and that will help us over the years. I had mentioned to you, we had got the highest acquisition for BS-VI, post COVID the numbers were Rs. 18,500 crores over a period of five, six years. So, it has partly the element of gasoline-diesel, but also has greatly the element of traded and manufacturing. So, multiple aspects in relation to product mix, but two important areas which I shared with you.

Shyam Sundar Sriram: Understood, sir. And one related point, what is the level of localization we would have achieved for BS-VI as we stand today? I mean, I understand we would localize over a period of two years, but as of today, for the BS-VI products, maybe excluding the exhaust systems which is not our core area, what has been the level of localization, sir?

Soumitra Bhattacharya: Look, localization levels differ from different families. So, I can't give a generic statement. I can only tell you, Bosch Limited as also our Bosch Group of Companies have a very systemic way of localization. We do not localize for localization, we see what the volumes are, requirements are, because many times if you localize at too earlier stage, it's counterproductive. So we look at the right timing for localization. And you have seen it in our conventional systems, which have very high levels of localization, to common rail systems which has also very high, pretty high level. And now for the BS-VI and four subsets of the BS-VI like exhaust gas, we will also, in a defined way, do. So a very strong localization process is there for Bosch worldwide, but specially for India, where we are on our 67th year of Make in India, so you can understand it's not just whims and fancies, but a systemic process.

Shyam Sundar Sriram: Sure, sir. Thank you. Just one last question, I will stop here. From a restructuring expenses, over the last six quarters we have incurred approximately Rs. 1,300-odd crores, what is the payback period as per Bosch's internal estimation for the expenses incurred so far? Any insights you can share on that, sir?

Soumitra Bhattacharya: I couldn't understand. Is it an exceptional item?

Shyam Sundar Sriram: Yes, sir. The restructuring expenses, what you have been doing over the last six years, what would be the payback period as per your estimation?

Soumitra Bhattacharya: Around five to six years. We have mentioned that before also.

Moderator: Thank you very much. Next participant is Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Sorry, just dwelling more on this gross margin, as you explained the two reasons. But if you look at on a directional side, the way you were guiding us on the call about your market share increase, about growing more than the industry directionally. But when we look at your gross margins, it looks surprisingly it came lower, can you explain the reason? But directionally if you look at, is it directionally you will start looking up in the sense that this mix will go in our favor because of localization? Or you think there is still, because this will remain for next one or two years, so gross margin will see a new normal towards these levels? So, I understand you don't share or guiding in terms of numbers, but direction would be really helpful. Thank you.

Soumitra Bhattacharya: I will not give a guidance, but I will give a broad answer in relation to what you have asked. Look, your company has been very clearly focused on, first, as always, very conservative accounting, very clean balance sheet and P&L, massive focus on free cash flow, which has resulted in our cash reserves being actually today higher than the pre-COVID levels, in spite of a three month greatly or partly shut down in India. And we are already starting to see the impact on the cost, which will have a complete fruition in 2021. That's the first point.

Second point, your company has also systematically focused on reshaping its core. Example, going from BS-IV to BS-VI, we are perhaps one of the few organizations who have helped our customers from, what I call, from conception to SOP, as the shortest time in the world. So, providing holistic solution.

Third, the company is spending money in a focused manner on future technologies like Project House Electrification, which is inside Bosch Limited, Project House Mobility Solutions, which is inside Bosch Limited. Your company is also focusing, while I talked to you on Sun Mobility, Bosch Limited will be partnering with Sun Mobility as a strategic partner, while the investment has come from Bosch Nederland on, example, strategic investment there at 26%. And I shared with you now that we have gone into something like Routematic at 7.1% in relation to the Nivaata Private Systems, where we are hosting them on the mobility cloud platform.

So we are focusing on changing our core, rejigging our adjacencies and taking out certain speed ports, while transforming and restructuring our company. So what we are not doing is trying to do this to ensure quarterly results look good. We are doing this for the future of the company, and I call it the midterm future, where you will see substantial changes happening in 2021/2022, and hopefully, even better in 2022/2023. And 2021, already this quarter of October, November, I told you, our order books are full. And I also told you, we have come to a near end, the last tranche which is marginal compared to what we have put this one will be on the next one. Does that answer your question?

Nitin Arora: That's helpful. So just to put it in the context, as you said, the direction is more towards the improvement in a longer term. So, is it something we should take away that FY 2022/2023, your aspiration is to reach to a double-digit or high double-digit margin which you used to do? Again, not asking short-term, just your answer.

Soumitra Bhattacharya: That's a very clear guidance question. And thank you for it. You can add up that if you are doing this, should we do better or worse. But the other part is a very clear guidance question.

Moderator: Thank you very much. Next participant is Jinesh Gandhi from Motilal Oswal Financial Service. Please go ahead.

Jinesh Gandhi: My question pertains to the restructuring expenses which you are doing. So, I believe that is yet to reflect in any reduction in our employee cost so far, right?

Soumitra Bhattacharya: Not really, Jinesh. The restructuring, I told you in the previous quarter that we were completing, just at that time we were just completing of a 1,000 headcount voluntary retirement with the Bosch ethos on ethics carrying with us being in the top quartile of the country, and with future cash flows. And all this is already starting to kick in. I told you, you are going to get the full benefit from 2021/2022. But you are already starting to see the employee cost improvement already.

Jinesh Gandhi: Okay. Second quarter, have we completed that exercise? Sorry, I am a bit confused on that.

Soumitra Bhattacharya: Again, Jinesh, I mentioned already that this is the second last quarter of our provisioning. Now, our actioning will depend on market situation, because we are not doing restructuring just like that, we are doing it with a very clear game plan which we started already two and a half years ago, which is transformation of the company on zero based organization. So you have to look at the root cause. When you do a zero-based organization, you look at spans, layers, controls, and affectivity of people, thereby redeployment, thereby reskilling. So you have to please look at it not as headcount reduction, but look at it as strategic transformation. Keeping that in mind, we have been very open to show exceptional items in a very clear line. And you will see, if I take out exceptional items, the profit, both at EBIT and at PBT have been at acceptable levels under difficult circumstances. And we want to further improve it.

Jinesh Gandhi: Right. And any sense of this Rs. 1,300 crores restructuring expenses so far, how much of that could be towards headcount reduction or VRS?

Soumitra Bhattacharya: It's primarily, but it is not only. We have EVR, and again I would say not headcount reduction, its EVR mainly focus through transformation of the organizational set up under ZBO, zero-based organization. So we have to focus from that angle. But it is also reskilling. I just told you that we are embarking on a digital fluency program for across Bosch Group in India. However, massively focused on Bosch Limited, amongst many other areas. I also told you, we are spending for money, for new transformation projects like electrification, Mobility Solutions and services, digitalization. And I also told you that we have done a very interesting strategic investment, which Bosch Limited is up fronting with Sun Mobility. So, it includes all these expenses.

Jinesh Gandhi: Okay. It includes investment in these areas as well, got it.

Soumitra Bhattacharya: Not just investment on Sun Mobility, I want to make that clear, because that we have already given…

Jinesh Gandhi: Because plenty of reskilling for newer areas as such.

Soumitra Bhattacharya: Absolutely.

Jinesh Gandhi: Right. And sir, second question pertains to, given the recovery which we have seen from lows of first quarter, does it anyway change your outlook which you are expecting the recovery to be more back ended towards FY 2024/2025 for the industry? Do we expect some change in that?

Soumitra Bhattacharya: Jinesh, we can't have a generic answer to this question. I will give you a very specific answer. Bosch India has different content per vehicle for different segments, like we have a pretty good content, as you know, on tractors. Now, in the month of May we looked at tractors, that tractors would be at 450,000, now today we look at tractors to be anywhere between 8 lakhs to 8.5 lakhs. Now, our units are running full in relation to customer demand, both on supply chain management to fill up the pipeline, as well as sales. And by the way, tractors the peak in 2018/2019 was 9 lakhs. And if you look at heavy commercial vehicles, the peak in 2018/2019 was 480,000, in the month of May we looked at 110,000 will be the sale this year. But right now, we see it could be anywhere between 140,000, 150,000, improvement on a low base. Now, if you look at light commercial vehicles, 6.70 lakhs was a peak in 2018/2019. But now we are looking at a recovery, in month of August we looked at 2.70 lakhs, now in October we are looking at 4 lakhs. So that we have in BS-VI our content per vehicle improvement. Summary, the content per vehicle is improving Bosch, while it has a slight change adversely on product mix. And in 2021/2022, our content per vehicle for these areas will go up even more. So overall improvement, but with a little drag on the mix. And you can't paint it with one brush and one colour, you have to look cars, LCV, HCV, tractors, two-wheelers and three-wheelers.

Jinesh Gandhi: Sure. And sir, you indicated about tractor, M&HCV, LCVs, on passenger vehicles also I am presuming that change would have happened, right?

Soumitra Bhattacharya: Passenger vehicles, you also see that 4.1 million was the peak in 2018/2019. In the month of August, we looked at maybe 2.22 million to 2.3 million passenger cars coming in. But after that, we saw in two months' time 2.8 million. Now of course, there is a mix between gasoline and diesel. The good news is, diesel in the UV1, UV2 is pretty strong. And the positive news is, some of the OEMs who had gone out are possibly coming in. So bottom-line is, diesel is there to stay on a lower base, I told you already 22%, diesel was at 48% six years ago. I don't think in the world you will see it, but not in India. And our presence in gasoline has moved up.

Jinesh Gandhi: Sure. And sir lastly, what is the CAPEX for current financial year FY 2021?

Soumitra Bhattacharya: We had announced to you that this year for 2021 we have halved it. But the positive news is, we have not reduced CAPEX on our vital expansion areas or our localization areas, or indeed the transformation of our Adugodi Complex, which is becoming one of the smartest campuses in India, making it a tech center of the future. So it's a part of a transformation journey. And we have also focused on people were very shortly you will see the announcement of a Bosch Learning Centre. So a combination is, while normally Bosch India used to spend about Rs. 450 crores to Rs. 500 crores, this year we will be in the region of about Rs. 230 crores to Rs. 240 crores, in that region.

Moderator: Thank you very much. Next question is from the line of Bhaskar Bukrediwala from ASK Investment Managers. Please go ahead.

Bhaskar Bukrediwala: Just to dwell a little bit more on the margins, I understand you would not give specific guidance. But as we understand four things, one was, some bit of COVID expenses which was part of a rather expenses, a bit of FOREX impact, which you mentioned, and then the segment wise or the product mix, which impacted the gross margins. Now, as we move forward, I am assuming that the COVID part and the FOREX related should normalize and as the segment mix also imposed, along with your localization efforts, directionally the margin should the normalize to your earlier levels. Is that a fair assumption and a directional wise margin trajectory that we can look at?

Soumitra Bhattacharya: Bhaskar, our CFO, Srini Srinivasan will take that.

S. C. Srinivasan: Right in the sense that as the top-line picks up, and also the content per vehicle is up and there is a certain benefit of localization that will come over the next three to four years, and the benefit of transformation should also kick in. As our MD has already said, there is a certain payback period for the EVRs that we have done. So a combination of cost side transformation, and the top-line growth and the content per vehicle will have a trajectory towards margin improvement.

Bhaskar Bukrediwala: Right. And a question on the restructuring thing. The margin part was really helpful. On the restructuring thing, does this expense also, in terms of reskilling of employees, also means that your opportunity set in terms of doing what you are doing currently also expanded the let us the expense directed towards where you are reskilling your employees towards newer areas of opportunity?

Soumitra Bhattacharya: I mean, on one side, of course, we want to focus on digitization. So the world is becoming digital and hence from our own perspective, both in terms of our process and the way we work, we have to become more digital. And secondly, we are also investing quite heavily in our Mobility Solutions business which is also linked to what's happening, which is also digital and more mobility rather than just being automotive and what we are doing on electro-mobility side. So these are some of the two key businesses that we are incubating and growing.

Bhaskar Bukrediwala: Sure. And any direction or guidance you will be able to give in terms of some of these new things which peers wouldn't be able to see some traction on the revenue side?

Soumitra Bhattacharya: Look, Bhaskar, any professional management will do two three things. First, be conservative in the accounting, we are. Second, focus on cash, we are doing it. Third, do a transformation and not look at quarter to quarter results, which we are doing. Now if you do all this, you are bound to get the benefit, especially if you look at optimal. So we are launching speed ports and when you launch speed ports, initially you will do front-ended some expenditure but you will get over proportionate benefits at a later stage. So we are not trying to focus on quarterly results, I repeat. We are trying to ensure do what is right for the business.

Moderator: Thank you very much. Next participant is Rajesh Rananathan from Doric Capital. Please go ahead.

Rajesh Ranganathan: In your description about the gross margin impact, you had mentioned that one of the factors was the product mix, especially the increased traded content on the exhaust side. Is that something which we would internalize in the future, in the sense that will no longer be traded in the future as volume picks up, is that what we should understand? Or we would always be using that as a traded content?

Soumitra Bhattacharya: Rajesh, it is a yes and a no. If there are certain things which we find is better to get done through our extended workbench or our external suppliers, we will continue doing that. If there are certain things which we find the mid and long run certain imports work to the benefit, we will do that. But if there are certain areas which your company has been doing systematically and successfully on localization, to improve the overall supply chain benefits, including duties, inventory and improve cost, we will do that. So, BS-VI has just been launched, Rajesh. So we must understand that we have been the primary driver to support the industry, to do the fastest change in the world. And Bosch India, and especially Bosch Limited, had participated to make it happen. So at this stage, you have to first focus on ensuring that this is done. The other things are very well planned and honed and will happen step by step in the manner that I explained.

Rajesh Ranganathan: Okay. Thanks for that clarification. And when we look at pricing, obviously, it was an effort which you worked on partnership with your OEM clients. But it is also a time the industry is going through a lot of stress. So because of that, has there been any concession on pricing that you have given temporarily, which may come off in the future? Because one would have expected margins to be a little bit better given that we are providing a unique solution in such a short period of time, which is something which you could have charged anything for.

Soumitra Bhattacharya: Rajesh, it's a very interesting question and I will try to keep it very simple. I am sure many of you will know how to export. And I am sure you saw many of the BS-VI launches, and in most of them Bosch is in. And I am sure you also saw that BS-VI was very attractively priced. And obviously, cost and pricing have some sense of semblance. Because in India, you need to create affordable solutions and affordable pricing. So the focus has to be how to expand the market, Rajesh, and not look at just pricing, both from the OEM, but also the supplier. So in Bosch Limited, we have tried first to give a very good holistic solution. And that's what makes us the

USP and not just a component manufacturer. We are solutions provider, many times people call us a component manufacturer, we are not, we are a solutions provider. Second, we have worked from the conception, including application, R&D, right up to the SOP on meeting the norms and better than the norms, many of the box solutions are far better than statuary norms. And third, our pricing ensures that the market pricing is met. And this is not just for Bosch, this is for the entire supply chain, it has to be done. So I will not get into whether our pricing should increase our EBIT or not, I will only say, does it help to penetrate the market working with the OEM from the conception, which is a different ballgame, as compared to selling components and becoming commoditized. Does that give you an answer?

Rajesh Ranganathan: Yes, partially. And finally, from me, the other participants also discussed this with you on the other expenses and you have given reasons why it had increased. And I mean, it's a great result in many ways, but that particular item was a bit disappointing, because if we look at other companies that have reported so far, both in the auto business and otherwise, they have managed to reduce other expenses compared to history. You had mentioned there are some one-off items in that, can you try and maybe help us understand if that's the reason why we are seeing growth there?

Soumitra Bhattacharya: I can tell you, there are a couple of one-time items, Rajesh, we are not going to go into the details. And I can also tell you that you are going to consistently see improvement on other expenses, along with personal cost. Does that answer?

Rajesh Ranganathan: Yes, it does. Thank you so much. Appreciate.

Moderator: Thank you very much. Next question is from the line of Annamalai Jayaraj. Please go ahead.

Annamalai Jayaraj: Sir, last quarter generally the OEM demand and OEMs have recovered much faster than expected. Were there any supply issues they could not match on any sector on the OEM demand? And also how was the OE aftermarket trend last quarter?

Soumitra Bhattacharya: So I will come to the second question, aftermarket is doing reasonably well. Because the fact is, we are penetrating at the second level, not just at the dealer level, we are trying to look at the end sale point, including retail. We have also done very good work in our company on net working capital, including in aftermarket. So you will see, as I said, free cash flow improving consistently in this company. Currently, cash is king, net working capital improvement. And also we are focusing on sales, not as a push sale, because you can have quarterly improvement in sales, but push or pull. So the push is getting converted to pull by generating demand. So that's one. Now, what was your first question?

Annamalai Jayaraj: I mean, whether OEMs recovered much faster than expected. So, was there any supply side issues for any of the segment?

Soumitra Bhattacharya: So all our plants, especially on mobility, are full. As I said, partly to meet the pent up demand, and partly to fill up the pipeline. We are the Tier 1 to the OEM, so we will always see a bullwhip situation in terms of sale versus demand. There was a pent-up demand, the market had a demand and the supply chain was empty, so we are filling up the supply chain. And in certain segments, you are seeing that there is a sale at the retail level also, it is a combination. And then there is a small word of caution, let's see how Diwali ody moves. But overall, there is a very positive sentiment. And overall, for people like us, our order books are full, definitely in this quarter with October as a very good month. The best month we have had them for more than a year.

Moderator: Thank you very much. Next question is from the line of Vijay from Ampersand Capital. Please go ahead.

Vijay Satpati: My question is, you have been making all these investment with a view of breaking even or paying back in four to five years. So, should we look at Bosch as a kind of company which will have IRR of somewhere around 15%, 16%, is that how one should look at it?

Soumitra Bhattacharya: I don't think, Vijay, we need to look at it that way, we should look at what are we investing and is that investment optimal? So investment could be on CAPEX, investment could be on the 3R program. So I told them the 3R program our payback is five years, max six year. I told you on our CAPEX we have reduced and optimized the CAPEX, but still focusing on the essential, again, for the future, and future I mean always midterm. And we are at the end, if you do these, automatic enablement will happen on IRR, on EBIT. So we don't do it based on IRR, we do it based on business. In summary, I would say, your company is undergoing the biggest transformation it has ever had from people, reskilling, current businesses which are the core which are being massively focused but in a reinvented manner, and I gave you on BS-IV to BS-VI. Very importantly strengthening our adjacencies where we are investing money to be able to get the benefit in the midterm. And most importantly, on defined speed ports that we are launching, and only two we told you, Sun Mobility, Nivaata, Mobility Cloud platform and Mobility Solutions. And as and when things happen on new projects, we will let you know. And most of them are happening in Bosch Limited.

Vijay Satpati: Understood. Sir, if it can ask this question a little differently. The Bosch at one point of time was the most profitable auto ancillary company. So in four, five years down the line, how will we look at it? Will it be the most profitable? Will it be the fastest growing? Or, I mean, in terms of some kind of a financial metric if we can just pin it down, like what kind of objective it will deliver?

Soumitra Bhattacharya: Yes, this is a pure guidance question. Don't get me wrong. But I will give you an indirect answer. Now, if a company which got most of its money on diesel doesn't transform, what will happen to company? It will make a lot of money, but after that what will happen? So, your company started transforming while sharpening itself on diesel, and giving solutions for powertrain, diesel, gasoline, which are both affordable as well as meeting and exceeding emission norms, thereby keeping it USP on margins. On the second hand, your company started investing in new age and new tech businesses for which you need a minimum gestation period, it doesn't happen for quarter to quarter. Third, it started transforming itself well before COVID on people related matters. However, in the Bosch way, which is I would say slightly exceptional. I will not comment on others, but I would say we do it in a different way, it's caring, it is taking care of not just the financials, which are very, very important, but the overall manner as a family. Now, when you do this with a game plan, you are bound to see the impact over time. We are not doing it, Vijay, for the financial analysts call. We are doing it to transform the company with a very clear game plan and in the not so distant future.

Moderator: Thank you very much. Next question is from the line of Priya Ranjan from Antique Stock Broking Limited. Please go ahead.

Priya Ranjan: One is on, when you look at the payback period for four, five years, so you have started this transformational journey from, say, last two years back. So should we take two years back as the entry point of looking at the five year payback period, or how should we look at it?

Soumitra Bhattacharya: Priya, when you look at four, five years, the answer is yes, it's four, five years. But I will not tell you now the year, which year and what will it translate to EBIT. But do you see future improvements in the performance of the business? The answer is yes.

Priya Ranjan: And you have just highlighted, I mean, in one of the question you said that our content per vehicle will increase further even next year onwards. So any specific area where you want to highlight? I mean, because broadly we presume that most of the content increase, particularly on the automotive side, has happened in the BS-VI, and there is hardly any new norms coming before 2023 or so with CAFE and RD and all.

Soumitra Bhattacharya: Vijay, you are right, that when the content per vehicle improves, and that when BS-VI, the real kick off in BS-VI will happen in the year 2021/2022. The BS-VI is just starting its impact in terms of the customer. So you have to keep that in mind that BS-VI; A, starting point is the second half of the fiscal year 2020/2021, and the real impact in 2021/2022.

Priya Ranjan: Yes. And lastly one common complaint from the industry side is that Bosch has been pretty slow in ramp up of meeting this demand, whatever comes at a very short notice. So you keep importing from outside and you don't plan it properly. So how do you react to that?

Soumitra Bhattacharya: Vijay, in the last conference call we had a situation where many of some of you asked about, are we gone into meeting customer requirements? Answer is, yes. There has been a very short notice call, now in case of local manufacturer or traded, for anyone, on certain areas on certain times there will be always some time delay in terms of supply chain, because this is a global supply chain. So answer is generally in relation to supply chain, have we ramped up? Answer is, yes. Specifically on one or two cases of few cases if there is a situation, it can't be given with a yes and a no, it is linkage to what customers want, from where is it needed? If in very short notice there's a amazingly high increase, it will happen, but it can't happen overnight. So, I think the generic answer is, yes. And one particular case where we had a bit of a supply chain issue, and that too only for one month, that was very COVID related, including lockdowns and COVID situation, etc. And that last quarter itself I indicated we overcome that and are doing whatever is necessary to meet market demand.

Priya Ranjan: And in terms of sales, when you talk about localization, so localization also means that you have a three, four year payback period or how do we look at localization, when we decide about doing something on localization in particular areas?

Soumitra Bhattacharya: I can't give you an answer on the way you are asking the question. If you take localization of a conventional product, how and when we did it, that's different from how and when we did the common rail in the year 2002 to 2005, starting with, for example, a customer like Mahindra. So they are totally different, and it is individual case by case. And I also give you an example, sometimes localization is not the right thing to do, example, parts of EGT and so on, so forth. So we cannot paint it with one brush. So that would be a slightly unfair question.

I think that should be the last question, if I am not wrong?

Moderator: Yes, that is the last question for today. I will now hand the conference over to Mr. Annamalai Jayaraj for closing remarks.

Annamalai Jayaraj: We thank all the participants. We thank Bosch management for taking time out for the call and providing us opportunity to host the call. Have a good weekend.

Moderator: Thank you very much. On behalf of Batlivala & Karani Securities India Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.