"Bosch Limited Q3 FY23 Post Result Conference Call"

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Moderator: Welcome to Bosch Limited 3Q FY '22-'23 Post Result Conference Call hosted by B&K Securities. I also take this opportunity to welcome the senior management team of Bosch Limited. We have with us today, Mr. Soumitra Bhattacharya – Managing Director; Mr. Guruprasad Mudlapur – Joint Managing Director and Chief Technology Officer; and Mr. Karin Gilges – Chief Financial Officer.

At this point, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the management's presentation and opening remarks.

Also, may I remind you of Safe Harbor. The company will be making some forward-looking statements. That has to be understood in conjunction with the uncertainty and the risks that the company faces. Over to you, Sir!

Soumitra Bhattacharya: Thank you, Annamalai Jayaraj. A very good afternoon to all the colleagues who are participating in this call.

Today, I would like to brief you a little bit on the macroeconomic policy as well as what's happening on the automotive market, and then I will walk you through our financials. And finally, I would like to tell you something about the quarter relating to our business.

The global economy is facing a significant down risk on the growth with persistently high inflation. If you look at India and its economy, IMF expects for the FY '23, a real GDP growth of around 6.6% to 6.8%. India is expected in FY '24 to be anywhere between 5.5% to 6%. And of course, the government has a continued focus on CAPEX as you have seen in the budget, while, of course, also trying to balance and reduce its fiscal deficit.

The overall automotive market production has increased by 17% or (+17%) year-on-year in the current quarter. This, of course, excludes two-wheelers. And this is on a low base of Quarter 3 FY '22.

The robust order book across pass car OEMs on a strong festive-led retail across the segments, inventory destocking that has happened amid a calendar year change, and continued correction of commodity prices were some of the key highlights of Quarter 3 FY '23.

Pass cars segment has outperformed other segments growing by a plus 21% year-on-year, volume growth supported, on one hand, by easing chip supplies to the past. On the other hand, I have to also say that the supply chain on semiconductors and chip are still extremely vulnerable, and the inventory levels on the supply chain very low.

However, based on the past quarter relative easing, we have seen a healthy order book. And we have seen also, relatively, the longer waiting periods have got reduced. The two-wheeler segment has been stable on a year-on-year basis, albeit nowhere near the past records of 25 million. We expect in the fiscal year '22-'23 to be about 20 plus million.

LCV segment at plus 5% year-on-year, and the HCV segment has grown on a plus 20% year-on year, albeit on a low base. On the ground situation, there is a steady fleet utilization levels, which are healthy. And this is primarily led by healthy economic growth, including infrastructure activities.

The tractor segment grew on a (+6%) year-on-year on a high base. The three-wheeler is on a recovery path with shared mobility picking up, albeit the peak of FY '18-'19 far away to be reached.

Let's have a look at the automotive market outlook for '23. In this slide, the rows represent a particular segment. For instance, the first row recommends the pass cars followed by HCV, LCV, tractors, two-wheelers, three-wheelers, respectively. The first column represents 2018 production volumes, which is considered to be one of the best years in the Indian automotive industry.

The second column represents the year '2020 production volumes. The third column represents 2021 production volumes. And of course, the fourth column gives the 2022 actual volumes released by SIAM. And the fifth and sixth provides low and high scenarios based on how we look at GDP growth.

Based on the numbers in 2023, industry will grow, albeit, of course, at a slower pace over 2020. This can be attributed to multiple factors. For example, the instance of slowing down in the pace of GDP growth, the higher base of 2022, and a more stable demand as opposed to a pent-up demand, which happened in 2022.

The bulk of the growth across the segments can be attributable to the replacement demand. Within PVs, we can continue to expect a shift towards utility vehicles. Within HCVs, we are seeing a shift towards higher tonnage vehicles. And LCVs continue to grow giving the increased last-mile transportation requirements, mainly, intra-city.

The tractor segment is expected to witness a minor degrowth, of course, on a high base, while two-wheelers will continue to grow, and though it will be well below the 2018 peak, which I spoke about.

Within two-wheelers, we will continue to see and witness the growth in greater segments than the 125 cc variants.

Let's have a look now at how the company has performed in October-December '22 quarter compared to October-December '21 amidst all these above economic and automotive sectors. The overall revenue from operations for October to December stood at INR 36,599 million, which is an increase of 17.7% on the comparable basis of the corresponding period of the previous year.

Here, the automotive sales have grown by 21.2%, largely driven by powertrain solution, while the non-automotive sales have increased by 2.9%, largely led by the Consumer Goods division.

Overall product sales have increased by 18.8%, primarily on account of improved market demand and positive consumer sentiment.

Income from service is mainly comprised of R&D services provided to OEMs and Bosch Germany. While billing for R&D Services was set at a healthy level, income recognized in the books based on customer SOP dates was INR 1,701 million. Balance income would be recognized in subsequent quarters on the project completion days of the customers.

Other operating income mainly includes income from lease rentals and miscellaneous income, and export incentives. In the quarter, the increase is mainly on account of recovery of central regional charges and rentals owing to additional income from the leasing of our smart campus, which we call as Spark.NXT campus.

Our material cost as a percentage of total revenue from operations is at 60% in October to December 2022 as compared to 60.8% in October to December 2021. However, when you look at material cost as a percentage of net sales, that is excluding income from services and other operating income, then material cost is at 64.9% in October and December 2022, as compared to 66.4% in October-December '21.

The reduction in material cost percentage is greatly on account of actualization of the year end closing inventory. Post restructuring that we have done, the employee cost has stabilized at a level of INR 2,700 million to INR 2,800 million per quarter. However, as a percentage of total revenue from operations, this looks low at around 7.4% due to higher revenue in the current quarter.

Let me share a few elements on the other expenses. Other expenses stood at INR 7,890 million, which is approximately 21.6% of the total revenue in October-December '22 as compared to INR 5,700 million that is 18.3% of the total revenue in October-December '21. The reason for the increase is that the current quarter has seen certain one-time impacts in our expenses.

For example, provision was made for special warranty for customer claims on certain field complaints for automotive products. This amounted to approximately INR 350 million. Exchange rate impact due to depreciation in the INR versus the Euro and the USD amounted to approximately INR 300 million.

We also increased our spending in these areas. We have told you earlier that we were doing new business areas in the project of electrification, mobility solutions, as well as hydrogen. And this amounts to approximately INR 250 million. And we have a few other higher spending also in this quarter.

The depreciation for the current quarter is INR 1,083 million, which is 3% of the total revenue as compared to INR 851 million, which is 2.7% of the total revenue in October-December '21. Increase in depreciation in current quarter is a majority on account of depreciation impact on the capitalization of our smart campus, which we call as the Spark.NXT campus, and the plant and machinery localization of new products, which was done also in July-September '22.

With this, our operating profit stood at INR 2,954. Million in October-December '22 as compared to INR 2,723 million in October-December '21. So, while EBIT was at 8.1%, EBITDA was at 11%.

The other income primarily comprises of interest on fixed deposits and change in market value of mutual funds, which are debt based. The other income has increased from 804 million in October-December '21 to 1,312 million in October-December '22 on account of higher mark-to-market gain on mutual funds, as well as higher FD interest income, as all of you know that FD interest rates have firmed up.

For the quarter ended October-December '22, your Company posted a PBT or profit before tax of INR 4,276 million as compared to INR 3,358 million in October-December '21. As a percentage of total revenue from operations, PBT or profit before tax stood at 11.6% of total revenue in the current quarter.

Profit after tax for the quarter ended December '22 stood at INR 3,189 million, which is 8.7% of the total revenue from operations. Profit after tax in October-December '21 was at INR 2,349 million, which was 7.6% of total revenue from operations.

Let me provide you a few insights to our aftermarket business, which has delivered the highest ever turnover in 2022, also with a decent and high EBIT. Our aftermarket continues to be a benchmark on working capital management, with net working capital currently at 23 days.

We are the fourth largest cars service network, currently with 500 locations across the country. And we have also witnessed strong growth in exports by expanding largely untapped markets with our product range in the countries of Sri Lanka, Bangladesh, and Nepal. This has been delivered with the help of our strategy in our market, which we call as Zing+, which is a demand creating and generating strategy and has enhanced the customer experience.

Bosch Limited offers complete system solution also for hydrogen-based powertrains in India. My colleague, Guruprasad Mudlapur, will later explain some of these areas if you have interest.

We offer systems and components catering to hydrogen engine and fuel cell electric vehicle technology. Bosch has entered into a partnership to offer hydrogen tank system as well. We have set up a state-of-art hydrogen engine test facility at our technical center in Adugodi at Bangalore where internal demonstrators are currently being developed and optimized for performance as well as emissions.

We are also building an H2 engine powered demonstrator vehicle in India to run extensive trials in order to offer the best value proposition to all our customers, current and future.

Bosch Limited has established also close collaboration with technical experts in Germany, and together, we are supporting Indian customers on series of applications to develop, as well as release hydrogen-powered vehicles in the Indian market.

A few words on people. Bosch Limited embarked its journey on Great Place to Work Institute, and launched the UllaS program as a program with an objective to build high trust, high performance culture in the year 2019. As per the Trust survey in December 2022, Bosch Limited has a Trust index of 79.

So, basically, we have improved from 67 in 2020 to 77 in 2021, and now at 79, which means that the employees who participate in the survey, and 96% of our employees have participated, nearly 80% share a positive perception across all the statements.

The Culture audit is also at a score of 4 out of 5, where we had begun our journey at 3 out of 5 in 2019.

With a Trust index score of 79, and a Culture audit score of 4.0, Bosch Limited continues to remain in the top quartile companies with best cultures in India. We continue our journey to provide consistently positive work experience and inspire every individual to achieve their full potential.

As a team from Bosch India, we would like to thank you for, as always, listening patiently throughout the call. We would now like to address your queries. Thank you very much, and we look forward to hearing your questions.

Moderator: Thank you, sir. The first question is from Jinesh Gandhi. Please unmute your line, and ask your question.

Jinesh Gandhi: Two questions from my side. One is on the RD norms given that many OEMs have decided to exit smart diesel, how are we progressing on our gasoline portfolio? Are we seeing market share gains on that side? Are we also getting more traction on the gasoline direct injection system given mainstream OEMs are launching products on that technology?

Soumitra Bhattacharya: Jinesh, I think there are two points. Since you said that they are going away from small scale diesel, small diesel engine, I would just like to say that you must remember that diesel, which had gone up to a 48% market share has come down to 18%, but it’s stable around that.

So, the 18% may come down to 16% or so, but it’s not going to, you know, go down to 10% and 5%. So, first, you must remember that there are certain segment of utility vehicles, which are selling still well, albeit at a lower market share percentage on diesel. Number one.

Number two, on gasoline, though relative to diesel, we in Bosch came later, the Gasoline Division is doing very well. So, basically, I can say that the growth figures that you see, Jinesh, from Bosch Limited where one year ago, we were in the region of, let's say, 2,800 crores per quarter, and we have transitioned to about 3,600 crores per quarter and growing. The Powertrain Division has also done well.

And so, I would say, we are quite firmly entrenched. We have made big acquisitions on the BS-IV to BS-VI, which I told you. We have made very good acquisitions in the TREM IV to TREM V on the off-highway. And we are confident on both the core and rewiring of the core that we will continue to see a good growth path for Bosch Limited, mainly led by our Powertrain Division.

Jinesh Gandhi: And on the GDI side, anything to share on that side? Are we seeing increased acceptance now?

Soumitra Bhattacharya: We do see GDI having come in, especially for the higher value cars. And we do see that both the technologies are there to be in India. In India, GDI was lesser compared to, you know, the Western world, etc. But we see the coexistence of both.

And as I said, we have a strong position in gasoline. Gasoline is relatively slightly, compared to diesel, a fragmented market. But our Powertrain division has good growth going, both in FY '22-'23, and we are looking forward to that growth in '23-'24.

Jinesh Gandhi: And second question pertains at a broader level, given that Bosch India, the listed entity, is operating on its own, and then there are other entities. So, is there any thought process on making Bosch Limited as go-to-market company and in turn channelizing the revenues of other companies through the listed entity? Any thoughts on that?

Soumitra Bhattacharya: Jinesh, I had given an answered to this earlier, but I will repeat it again. Many of our legal entities actually give their products or part of their solutions to Bosch Limited. Take the example of our automotive electronics company, which is growing at a very fast pace. A majority of their products, which are ECUs and other electronics, come into Bosch Limited. They go into our Powertrain. And this example can be extended to our two-wheeler division.

And so, it's not an exception on its own. And we have seen that because of the type of divisions that we have in Bosch Limited, we work very closely, both as being responsible for the region in India, where we provide a lot of services, which many of them are also financially linked, and also technology services, and also collaboration projects, which actually result also in billing.

So, this will continue and we will continue to have very healthy focused working of all our Bosch companies, where the parent of all these companies is the listed company.

Jinesh Gandhi: Just to clarify the two-wheeler business as you mentioned, so the entire, all other components like ABS also gets routed through the listed entity, or that goes separately, given that there is no direct synergies?

Soumitra Bhattacharya: Two-wheeler has two parts. So, there is a certain part which gets done through the listed company. And there are some smaller parts, which go out. But a sizable part of the two-wheeler business goes through the listed company.

Moderator: Thanks, Jinesh. Next, Mr. Pramod Kumar, you can unmute and ask your question.

Pramod Kumar: Sir, my first question is pertaining to the electrification side. We have seen rapid EV adoption on the two-wheeler side. And a lot of new companies, lot of component companies have started to launch motors and win big orders, substantial orders. Some of your peers on the listed side have gone on the public record to state the kind of order wins they are getting.

But in that context, if you can just share how Bosch is faring in the two-wheeler EV and the three-wheeler EV side, sir, in terms of what's the kind of prospective look you are seeing for this business? And related to that is the extension on the PLI side as to what are the kind of PLI benefits, which you expect for the business, including ICE and the EV side for the foreseeable future as you kind of reduce their import content?

Soumitra Bhattacharya: Let me start with the PLI. And then with a couple of remarks, I would request also my colleague and our JMD to come in on that. So, first on the PLI, we have extensively worked with the government on advanced technologies. And I think the government has taken a very good approach to take tech agnostic inputs and really put in advanced technologies. And we compliment the government.

Like all other companies or many other companies, we have also applied for the PLIs. And we believe that over the years, because this is a timeframe, you will see, you know, that the PLI usage, we will do in a proper manner. So, that is clearly an assurance, especially for the listed company, where we are very focused. Further details we would not like to talk right now.

On the EV two-wheeler, we have certain products and solutions, which we are already doing. Our part of the EV turnover, and this is already a part of Bosch Limited of the two-wheeler, our two-wheeler division is doing well already.

So, in relation to now EV two-wheelers, both start-ups and regular OEMs, I hand over to my colleague, Guruprasad.

Guruprasad Mudlapur: I think. Pramod, you are aware that we already have been supplying electric vehicle components to two-wheeler OEMs. And we also have very large orders from them moving forward. So, that is already existing. We are now working towards higher levels of localization content to match the requirements of FAME and the local norms and subsidy towards this. So, this is also an ongoing process for us.

We are increasing our market share in several other components. We have acquisitions on battery systems now and other portfolio like ECUs for electrification. Of course, you know that two-wheeler OEMs are also, you know, the two-wheeler economics today does not really favor a match to the ICE vehicles, if you take-out the subsidy. And also a lot of two-wheeler OEMs are really struggling to make ends meet on pricing.

And we are conscious about the fact that we will not go and destroy the market by offering things which are below values. So, there we are going to be very careful. But at the same time, on healthy margins, we are in on all OEM acquisitions, we are already doing it with several big ones.

Pramod Kumar: And the second and final question pertains to localization, sir, which could be a big driver for margins as well. That is the expectation. So, how do you see with the entire lot of the focus on EV work being done in India and the PLI scheme, and should one expect reasonable reduction in the percentage contribution from traded goods or imported components for Bosch going forward?

Soumitra Bhattacharya: So, Pramod, this part is applicable to any component. And I would really like to tell you, localization has two sides of the coin. You can have either healthy localization, or you can have unhealthy localization. It's about the timing of the localization that you do, and for the volume of the localization that you do. Both timing and volume are very important.

So, in Bosch, we always take a stated call, a very calculated call, on phased localization and this is either about our traditional conventional products, or new age products, or even the completely new age like EV and in future, it will be also hydrogen.

So, in summary, you already heard from my colleague on what we are doing in EV. You heard a little from me at the start on what we are doing for hydrogen. And I can assure you Bosch India is doing a lot of work at Bosch Limited on hydrogen. And we will do the localization, and we continue to do localization at the right time. So, this you can be rest assured.

Pramod Kumar: And sir, just a clarification on that. Forgive me for this. But given the fact that Bosch globally has enough and more reasonably strong capacities and capabilities on the ICE component side, so as the responsibility for Bosch India Limited, the subsidiary in India, the listed entity, would it be wiser to assume that you will be deploying the incremental resources and the focus on electrification where you can do lot more value add in India above, or just simply duplicating capacities in India in addition to what you have at the parent level globally?

So, I am just trying to understand the prioritization, how does it work? Is it more towards advanced technologies or to kind of reduce the cost and reduce the import content on the existing parts, which are anyway you can source from the global parent?

Soumitra Bhattacharya: So, that's a pretty deep question, and I have to give you answer in simple three parts. We have a very clear focus on the core, which will continue for a long time in India. We have an equally clear focus on rewired core, which is the advanced core, which also there are certain parts of the advanced technology in that, and that also we are equally focusing, And the third one where we have given very clear focus, and you remember five years ago, we established a project house Electrification, which included hydrogen. Five years ago, we established the project house Mobility Solutions and Services, which is on digital.

So, we actually have done a few things well in advance. And I shared with you also this quarter, we spent a decent amount of money for our new business areas. So, all this is, and this will come into play as we go along, and as India moves along. So, it's not either or. It is all three in a very systematic way. It’s like piano keys that you have to play to make music.

Moderator: Thanks, Pramod. The next question is from Viraj Kacharia. Please unmute your line and ask your question.

Viraj Kacharia: I have three specific questions. First is on the margins, you know, especially the contribution margins. If we look at this particular quarter, you know, it is something like close to 40% contribution margins now. This is despite you talking about high-cost inventory impacting the overall raw material cost.

So, considering that, I mean, I am just trying to understand, is there any further high cost inventories still left? And on the pricing part, where are we irrespective of recovery of both the raw material and the FOREX? So, that is one.

Second is, largely, the question on the CAPEX side. You know, you talked about us investing in EV to meet FAME localization. And to use analogy, you know, parent in their recent annual results, we have talked about the Chinese EV operations turning profitable, especially for motors, e-axles and all. So, for us, when we look at localization, would it largely be for the domestic market? Or is there a thinking to use the base also for the export?

Soumitra Bhattacharya: So, Viraj, you have asked many questions. So, I will try to give you quick, short answers. Look, on the margins, I told you, first of all, we want to turn in healthy margins under, the world is going through challenging circumstances. So, I would link up the margins to your price recovery and electronics. So, A, because of a good order book, you see very steady and improved growth. Number one.

Second, on a very challenging year '22 for the world, including India, where margins were under pressure due to raw material cost increases, electronic cost increases, we have a very clear focused approach, including contracting with our OEMs, and including approaching where we see that either they should pass on or they should share in a win-win basis, and Bosch applies that. Because you have also seen in OEM, the prices of cars have gone up considerably. More value-added and higher-cost cars are being sold and so on and so forth. So, we believe that this win-win should be across the industry. And we follow a very systemic process regarding that.

The CAPEX, Bosch has never been shy to put CAPEX in place for the future. Whether it will be hydrogen, electrification, whether on our smart campus, whether on localization, that we will continue.

So, in summary, Viraj, I would say, A, the margins that you see in this quarter, which are not too bad, also has a few one-time impact. B, the growth you have seen, which we will sustain, retain, and improve further. RMI, ECI, we will continue to focus to recover on a win-win basis for everyone. And CAPEX numbers will be put in place. And we always look at CAPEX on what need, last year, the calendar year '22 actually was a higher CAPEX. But we will continue to spend money on plant and missionary, and of course, also on other areas.

Viraj Kacharia: Just two questions. On CAPEX, you know, in the past, you talked about an annual spend of somewhere around 500 crores to 550 crores. So, given the kind of initiatives you talked about, would that lead to a change in that figure? And if yes, then what would that be?

Second is, any update you can give in terms of the order wins we would have, say, for BS-VI Phase II, TREM IV and on those aspects, I think we are pretty much close for the rollout and launch. So, any color you can give?

Soumitra Bhattacharya: Yes, you see, I told you, our CAPEX spend in the listed company are anywhere between 300 crores and up to 600 crores. So, you can't take a single figure. For example, if you look at '22, we have had a decent CAPEX spend. It is in the region of nearly 790 crores. So, you can sometimes have 700 plus. Sometimes you can have 400. So, it varies. So, this CAPEX is determined by the need of the organization. So, we will not be shy of spending CAPEX.

Bosch Limited has a very healthy free cash flow. We try to convert our entire EBIT into free cash flow. We are driven by not just top line, bottom line, but also cash. And we have, as you know, a healthy amount of financial investments and instruments, which we can liquidate at any anytime at use for either expansions, or M&As, or also internal growth. So, we will continue to use those in an intelligent manner.

Viraj Kacharia: On the second part on the acquisition update?

Soumitra Bhattacharya: On the acquisition update, we have had a pretty solid acquisition. In fact, if you remember, when we had the previous Auto Expo, just before the COVID hit us, I talked about a very healthy figure of 23,000 crores. And I also told you after COVID, it has that same value because the market went down, had gone down to 18,000 crores. And then that again recovered. So, that’s dependent on how the market recovers.

So, Bosch Limited has had A, on BS-IV to BS-VI very high acquisition. And this you can see with the higher content per vehicle, and this you can see with the higher growth in turnover including in our powertrain. And second, we have recently in the last year or fiscal year '22-'23 also made very good acquisitions in TREM IV, TREM V and in the Off-Highway. So, these changes that are happening on legislation, Bosch is well-prepared in the outlook based on a good set of acquisitions that we have made.

Viraj Kacharia: Any perspective in terms of what opportunity that translates into? I mean, last time we gave a figure for Phase-1, Phase-2, and TREM IV is already in the process. So, any perspective you can give how much that translates into? It will help us understand how we have done relatively, you know, in the market.

Soumitra Bhattacharya: Viraj, we don't give you a number like that, because you are trying to put that into exact turnover increases. What I gave you was a very clear leading indicator to say that a year ago when we were at 2,800 crores on a quarter, and now that we are at 3,600 and growing, you can see that growth in our top line. And this is led by powertrain.

The second indicator I gave you that our powertrain has a healthy growth prospect provided India grows and automotive grows in '23-'24. That itself should give you that on a healthy growth year, we are looking at a further growth possibility for FY '23-'24. So, that's one.

The second one, I gave you very high acquisitions. All our acquisition targets have been met in FY '22-'23. And we had very high acquisitions in FY '19-'20. And these were the landmarks for the legislation roadmap. So, I think you can add two plus two together.

Viraj Kacharia: So, if you consider the overall positivity and enthusiasm, so, you know, if you look at the overall wins which we had, and if you kind of match it with maybe the indicative CAPEX, which you are spending, it doesn't really kind of correlate.

And if I look at the kind of cash generation as an entity which you will keep on doing, you know, the cash levels will just keep on building up every year. So, I am just trying to understand one on the CAPEX part again, and second, in relation to the usage of the cash, which will add to the existing large balance.

Soumitra Bhattacharya: I want to give you an assurance on behalf of the team that we are looking at all possibilities, not only of organic, but also inorganic growth. And as and when we finalize any of the organic big ticket or inorganic growths, you all will be the first to hear.

So, we are very conscious that we have cash. We have just rewarded our shareholders with the interim dividend due to the high liquidity, as well as a good performing year on the calendar year '22, when we had reached our record turnover. And we are churning out a decent set of numbers, which we want to further improve on the bottom line.

Moderator: Thanks, Viraj. Next will be Pramod Amthe. Please unmute your line, and you can ask your question.

Pramod Amthe: So, first question is with regard to your aftermarket business. It's impressive to hear about the business scaling a new high. Traditionally, we have seen aftermarket business is a very superior profit margin for any of the companies.

But if I have to look at your firm in spite of the aftermarket scaling new high, the overall company margins are much, much lower. Wanted to know, has the aftermarket characteristics have changed towards more of services than products? Because products are legacy products on the aftermarket. So, why is this margin tailwind not coming through in the aftermarket business?

Soumitra Bhattacharya: So, Pramod, I have given you feedback that we are happy that our aftermarket has not really done wrong but has become a strong market leader. And we are really happy that aftermarket has focused on top line, bottom line, cash, net working capital, market share, as well as great place to work.

Now, I would slightly defer on what you said on aftermarket being traditional. There are many new-age areas where we get a lot of help from our parent on, you know, our analytics that we have with the Bosch machines across all models and platforms for vehicles.

I mentioned, and I would like to repeat, we are at 500 Bosch car services and we are focusing hugely on creating USPs. And you will see that. And our true North is 1,000 Bosch car services. We have a huge number of Bosch diesel services. We are starting on two-wheeler services. The aftermarket has also gone digital.

Having said that, you have to remember, while the aftermarket is growing, the overall the company is also growing at a pretty good pace. I had given for the first time a guidance of 15%. But now, you can see the YTD growth is much above 15%. In fact, it has crossed 20%.

So, you must remember that when aftermarket does well, and if power tools does well, and if the Powertrain business does well, then aftermarket will be significant, but not the dominant portion of the total turnover. Number one.

The number two, in Powertrain, when you see, a company must invest on existing business, but also future businesses. And Bosch Limited has not been shy. So, I can only tell you while delivering a good set of numbers, and I suppose you would agree, in terms of not just turnover, but also cash and EBIT, we are also investing money for the future. And you heard from my colleague Guruprasad Mudlapur and from me on both EV and hydrogen.

So, please look at not quarter-to-quarter. Please look at a year. Please look at three years. Because you are interested in our doing well. If we are not investing in the future businesses, we cannot turn that into turnover and profits in the future and acquisitions.

Pramod Amthe: The second one is, you alluded to TREM IV, TREM V opportunities. What is your assessment of timeline for these to come? Because TMA has its own thinking, and still there are debates happening about when to implement it. Can you give us some clarity on that? That's one on the tractor norms.

Second, as we saw in case of BS-VI when it happened, we have seen your margins, even though you won amazing amount of business, either because of competition or localization, the margins are diluted, and they are yet to recover. Will you see a similar thing happening out based on the price quotations, which you are giving to the end customer for the tractor norms?

Soumitra Bhattacharya: Can you repeat that last part of the sentence, last part?

Pramod Amthe: I said, like we have seen in case of BS-VI wins where the sales was able to come through, but if I were to look at three-year margins, they have come down. So, now, once you are giving the quotation to the tractor makers, do you see a risk of further margin dilution from tractors upgrades?

Soumitra Bhattacharya: So, look, I told you that we have had a very good acquisition on TREM IV conversion to TREM V. On the matter dates, we have always talked to the government not about Bosch, always talked to the government for the good of India and ease of doing business to stay with the timelines.

So, sometimes there is a change because of, you know, three months, six months. And that's not a problem. So, in India, I don't see now changes that, you know, TREM IV will go to '26 and all. It will be in '24. So, maybe you are referring to a few changes on months and all that. That's okay.

Acquisition is already in the back. It's a healthy acquisition and with a decent bottom line. Now, I am not going to indicate what is decent, because that would be a guidance and a leading question.

Moderator: Thanks, Pramod. Now, I will read some questions from the question box, sir, from the chat box. So, first question is, can you please state the headwinds and tailwinds in the medium-term for the business?

Soumitra Bhattacharya: Let's start with the tailwinds. And I will request my colleagues also to give a couple of sentences on that. India is on a sweeter spot. Therefore, Indian industry has a sweeter spot chance and therefore, Automotive industry overall.

We from Bosch India and Bosch Limited would like to capture the sweeter spot and be a part of this market journey, because of our very strongly embedded processors, innovations and affordability. We have done it in the past. We are committed to doing it in the future.

Headwinds, we are in a critical situation of election year. If we continue like a growth-driven, CAPEX-driven budget, and if India focuses on the basics including Make in India, Made in India, ease of doing business, and allowing industry to meet market expectations, I believe that, on one hand, we are not insulated against the global situations, what I talked USA, Europe, China supply chain, semiconductor crisis which happened.

So, in summary, those are the headwinds that we can see. Internal headwinds in India, the government, if we can curtail the inflation, if we can continue the improvements where there is lot of work done, but more improvement needs to be done, I think industry will further flourish and create a reliable India also to the outside world. But I would like any other comments from my colleagues.

Karin Gilges: Perhaps from my side, we see in the headwinds at least a certain of where we have to be careful or take care of is in the suppliers situation, the whole supply chain all over the world. And we are currently in a quite good situation also with the semiconductor. Nevertheless, it's still fragile. And therefore, we will carefully consider all these constraints in the supplier base and in the supply chains and yes, this is where we have to take care of.

Guruprasad Mudlapur: I think we should not underestimate the impact of the possible global recession or slower growth in the developed economies coming our way and impacting us to some extent. The Auto industry will not be immune to that globally. So, that's something that will have a bearing on us.

The semiconductor situation has been dicey all along. While for the Consumer Electronics sector, we already see a drop in semiconductor demand in the last quarter of last year, which means good supplies there. And you can already see that from the memory prices going down dramatically.

It's not doing the same in the Auto industry. So, the Auto industry uses semiconductor processes which are very unique, and that makes it still a very touch and go situation with regard to supplies. And as we speak, we are in the midst of one again, which we talked we would not have in the beginning of this year.

So, there are issues like this including constantly rising energy price. I think it's something that's happened all over the world. We are also going through that. The uncertainty around energy is generally a big headwind overall for the Auto sector. But I think we can focus on a very positive state as of today in the Indian context, and hope this continues for us to take a positive impact out of it.

Moderator: Thanks, sir. Next question is from Priyaranjan.

Priyaranjan: My question is, one is on the raw material side. I think you have said that from sales 66.8%, it has come down to 2.9%. So, is it like, say, 80, 90 basis point you have got some benefit quarter-on-quarter because of added cost benefit? Is it the right understanding?

Guruprasad Mudlapur: Yes. Since you have talked about that, I have to set the numbers in the right context, please. So, the question is very valid, but I would request you to please refer to what I mentioned. I said that in this quarter of October-December '22, the material cost as a percentage of total revenue from operations is 60%. And when you compare the like-to-like of material cost as percentage to total revenue from operations, the previous quarter, that means October-December of '21, previous year same quarter, was 60.8%.

However, now this, however, is very important. Material cost as a percentage of net sales. Net sales excluding income from services and other operating income, which is the right way to look at it, is 64.9% in October-December '22 as compared to 66.4 in October-December '21.

So, the point is, yes, in this quarter, there has been a marginal reduction in the material cost. We are very focused on material cost. However, I said on the right material cost. You know, localization, everything localization can also lead to higher either material cost or higher losses.

So, it's not just to say material costs will go down and all profits will happen, or localization will be done and all profits will happen. So, it's the timing of what you do on localization, or what steps you take on mutual costs, and it's the content of what you do.

So, since you gave two sets of numbers, which were slightly different, I had to just do that small correction, please, and tell you that we are focused, like all other costs on material cost, however with the clause of what is there for us.

Priyaranjan: So, just trying to understand, what it was, say, 60.8 you said December '21 quarter? What was it in September '22 quarter? July-September?

Soumitra Bhattacharya: I have given you the material cost of October-December, which was '22, which was 64.9. Like-to-like in July-September of '22, it was 67.3% like-to-like. And like-to-like, in the previous year, I also mentioned to you, the cost was 66.4%. Have you got it?

Priyaranjan: Got it. And just coming back to your other expenses, you have given three numbers. So, out of say Rs. 250 million, which is broadly for the new project for electrification, etc., how should we look at it? Is it like, say, one-off? Or is it like say recurring because for electrification etc.,

Soumitra Bhattacharya: I told you the warranty is a one-off already. So, yes, we have a very strong focus on other expenses, Priyaranjan. And I already told you that this quarter has been sprinkled with certain items of one-time expenses, which we don't expect every quarter to have.

Priyaranjan: And just on overall electric mobility side, I mean, there is your way of localization, which we understand, and there is another way of localization, which is given by the government of say for the benefit of FAME subsidies. Are our priorities and the government priorities are aligned? Or how should we look at it?

Guruprasad Mudlapur: See, our priorities are definitely aligned with what all OEMs are expecting in line with FAME requirements. So, there is no difference of opinion there. But what do you need to keep in mind, and which is what Mr. Bhattacharya was referring to is that localization, when done too early, does not necessarily mean that this is resulting in cost savings.

So, this may actually mean the overall cost of the product solution goes up. And when done at the right scale and volumes added at the right time, at the right levels, this certainly has a significant benefit.

Now, the PLI benefits offer some level of cancellation of these disadvantages, and we are factoring all that in and taking into account on when and how to localize, to what extent in line with what our customers are asking.

Moderator: The next question is from Janaki. I will just read out the question. Bosch India has localized plenty of ICE technology advances and has been able to offer these advances at an affordable price to Indian OEMs. As it developed the skills to replicate this localization EV space, are there specific areas of EV technology that Bosch India would focus upon to localize? That is the question, sir.

Soumitra Bhattacharya: Yes, I mean, just to give you confidence, Bosch has always relied on manufacturing excellence, whether in India or abroad. We have already localized, and we are maybe the largest Tier 1 supplying electrification components to global OEMs worldwide.

We have a market leading position in several geographies around the world, and we will certainly do everything necessary to bring that situation also into the Indian context. So, we have definitely all the competence to make early localization happen also for electrification in the Indian context. So, I would like to definitely reassure that.

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