"Bosch Limited Q4 FY2020 Post Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Bosch Limited Q4 FY2020 Post Results Conference Call hosted by B&K Securities. 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. Soumitra Bhattacharya, Managing Director, Bosch Limited. Thank you and over to you Sir!

Soumitra Bhattacharya: Thank you very much. Very good evening to all colleagues attending the concall and for you taking part. I hope each of you are doing well under these current challenging times. I would like to start with a brief about the macroeconomic factors influencing our business.

As we speak, the global economic environment is extremely challenging with economic activity coming to a near standstill ever since the breakout of the COVID 2019. With greater depths to which the activity has plummeted earlier in the April-June quarter and due to the rising risks of setbacks from further spread of the virus in some regions of the world, economists are developing the scenarios on global GDP forecast.

Overall global GDP is expected to contract sharply between 5.9% to 8.7% in the calendar year 2020 and to likely recover sharply by 2% to 5.3% in calendar year 2021. In India the government's response has been spontaneous and focused on containing the spread of COVID-19 with a nationwide lockdown since midnight of March 24, 2020. Google mobility data, which is a useful proxy for understanding people's real behavior under lockdown shows that the nationwide lockdown has been followed stringently across the various states of India and in fact more diligently relative to most of the other countries. India's growth rate is likely to come down to 4% for the financial year 2019-2020 with the January-March 2020 GDP at 0.5% year-on-year. Full year or fiscal year 2021 GDP is likely to contract sharply to around minus 1% and around 0.5% and thereafter recovering in the fiscal year 2022.

Last week Prime Minister Modi announced Rs.20 trillion or in Indian terms we call it a 20 lakh Crore financial package, which was focused largely on micro, small and medium enterprises, shadow banks, formal sector, workforce, migrant labors, farmers, agri, middle-income households, which have been hit the hardest during the lockdown primarily due to nonavailability of liquidity. We await further measures that the government may announce to stimulate demand. Till now there has been no direct stimulus for auto industry. Some examples, which the industry had requested were GST rate reduction for certain periods of time from 28% to 18% or even the much awaited scrappage policy. The impact of COVID-19 on globally integrated Indian automotive sector has been swift and significant. Initial disruptions from the Chinese, supply parts to the Indian OEMs quickly pivoted into large-scale manufacturing disruption with nationwide lockdown resulting in loss of turnover during the period of the lockdown.

With this background, let us look into the automotive market development in the last quarter, which includes the lockdown period due to COVID-19 pandemic. Overall automotive market production decreased by 23%, low production was recorded in March 2020, volumes declining across all segments as OEM faced supply chain issues and lockdown of facilities. HCV segment declined by nearly 61%, factors like surplus capacity from transporters and inventory correction by dealers further aggravated the business. Passenger car segment declined by 18% as OEMs focused on transitioning their portfolio to BS-VI and impact the supply chain due to global lockdown caused by COVID-19 in the last few days of March 2020, which is also a year end for many of the OEMs. LCV declined by approximately 40% on continuing slowdown in consumption and weak macroeconomic indicators. Amongst the other market segments three-wheeler segment degrew by nearly 25%, tractor segment declined by 7%.

Amidst of this weak auto market performance, we now look into the performance of our company, Bosch Limited for the quarter. Total revenue from operations is Rs.22368 million, a reduction of 18% as compared to the corresponding period of the previous year; mobility business sector declined by 23.7% due to factors mentioned earlier, business beyond mobility solutions also declined by 18.2%, the domestic sales for this quarter declined by 23.1%.

Material cost as a percentage of revenue from operations has declined to 53.9% during the quarter as compared to 54.6% during the corresponding period of the previous year. The reduction is mainly contributed by cost reduction measures with our suppliers, favorable product mix and optimization of freight rates as also higher service income during the quarter. Employee cost has declined to Rs.2763 million in January-March 2020 from Rs.3364 million in the corresponding quarter last year, a decline of 17.9% mainly contributed by the structural reduction and other short-term measures initiated by the company considering the turbulence in the auto market. This includes manpower restructuring for long-term sustainability and also partial closure of plants, productivity improvement programs both in direct and indirect areas to retain profitability.

Depreciation charges have marginally gone up by 1.8% during the quarter mainly driven by depreciation on building additions in Q3 of 2019 on leased assets with the change in accounting standards for lease assets effective from April 1, 2019. Other expenses stood at Rs.4134 million in January-March 2020 as compared to Rs.3835 million in the corresponding period of the previous year, an increase of 7.8%. The company's transformation projects like zero-based budgeting ZBB along with budgetary control measures have started yielding the expected savings. There were also additional costs on incubation projects like electrification, mobility solution, and higher R&D costs due to completed BS-VI projects and impacts on forex. Our operating profit stood at Rs.2256 million for January-March 2020 as compared to Rs.4065 million in corresponding period of previous year mainly due to loss in contribution on the reduced turnover. The other income mainly consisting of income from marketable securities and interest have decreased by Rs.222 million mainly due to higher profit on sale of investments in Q4 of 2019 to fund the buyback and also the reduced MTM gain, which is partly offset by the higher interest earnings on fixed deposits.

In continuation of our organization-wide transformation, we continue to implement restructuring projects across the value chain including impairment of fixed costs. Manpower adjustments will be done in a socially acceptable manner with focused approach on reskilling and redeployment in the new business areas. Towards these various initiatives, an additional restructuring provision of Rs.2969 million has been created and shown as an exceptional item for the quarter. For the quarter January to March 2020, the company posted a profit before tax of Rs.3611 million before exceptional items as compared to Rs.5660 million in January-March 2019, which is a decline of 36%. Profit before tax after exceptional items stood at Rs.641 million, which is 2.9% of revenue from operations. Tax expenses for the quarter has a net credit of Rs.170 million due to consideration of the indexation benefit of the MTM gain relating to long-term investments, which is retrospectively considered for the whole year during this quarter. The profit after tax from continuing operations before exceptional item is at Rs.811 million or 3.6% of total revenue from operations.

Now I would give you a synopsis of the annual results for the financial year 2019-2020. The company recorded total revenue from operations of Rs.98416 million, which is Rs. 9842 Crores, a decline of 18.6% compared to the last financial year. The mobility business sector declined by 24%, business beyond mobility declined by 14%. Material cost as a percentage of total revenue from operations declined from 55.2% in 2018-2019 to 53.9% in 2019-2020 mainly due to continuous cost reduction projects with our suppliers, optimization on freight costs and higher increase in service income. The employee cost also declined by 6.1%. Other expenses also declined by 6.5% with various measures undertaken by the company to retain profitability in long and short term as elaborated earlier.

The company posted a profit before tax before exceptional items of Rs.16364 million in comparison to Rs.23341 million in 2018-2019. As a percentage of total revenue from operations it stood at 16.6% in the current year as compared to 19.3% in the previous year. The net profit after tax or PAT from continuing operations received is Rs.5848 million as against Rs.15394 million in 2018-2019 showing a decline of approximately 63%. The decline is mainly attributed to turnover reduction, onetime exceptional item of Rs.7168 million towards transformational projects including asset impairment and exceptional items of Rs.1448 million due to concessional rate of tax availed by the company.

The impact of deferred tax assets due to exercising the option of a concessional rate tax of 22% plus applicable surcharge and cess for the domestic companies has been defined as an exceptional tax item. Further to the approval of the shareholders, the company has transferred by way of sale, packaging technology division to a standalone subsidiary of the Bosch Group. The sales is executed with effect from October 1, 2019. Accordingly, the results of the packaging division are shown under discontinuing operations and hence does not form part of the company’s performance for the quarter and the year mentioned above.

PAT for the period including discontinuing operations stood at Rs.6498 million in the financial year 2019-2020. The company has also prepared consolidated financial statements for the group, which has one subsidiary company, which is Mico Trading Private Limited; and an associate company, which is Newtech Filter India Private Limited; and a joint venture, which is Prebo Automotive Private Limited. The subsidiary company has not commenced its operations hence there is no material impact on the group’s financial statement.

The COVID-19 situation has severely impacted the Indian economy with a complete stop of almost all economic activity due to lockdowns imposed to flatten the curve. The end of this unprecedented event is uncertain as the various states grappled to contain the situation and balance lives versus livelihoods. As announced earlier, as the Bosch Group in India and please note colleagues this is not just Bosch Limited, Bosch Group in India has 15 legal entities. We have pledged Rs.50 Crores to aid the nation for combating COVID-19. This amount will be invested in various initiatives such as manufacturing of masks, assistance in refurbishing ventilators. Right now colleagues we are refurbishing 125 ventilators in the Bangalore region. Design of breathing assist devices and other community welfare topics related to combating COVID-19. As a socially responsible and value-driven organization, we are committed to supporting the nation in all possible ways to end the spread of COVID-19.

What is our outlook? The continuing slowdown in the Indian economy has been aggravated by the COVID-19 situation, which has brought the auto sector to a grinding halt in the last quarter. With special economic package of Rs.20 lakh Crores or Rs.20 trillion, we expect to see some revival in the overall economic scenario, but the impact in the auto sector will be very slow because we have not seen any specific auto industry direct stimulus being given. With the graded lifting of the lockdown industry recovery is also expected to be slow. This will be constrained by supply and demand bottlenecks and reduced access to labor corridors due to travel restrictions.

In the long term, COVID-19 situation will cause deep-rooted changes in consumer behavior and how businesses are organized. Under this challenging market environment our short-term focus would be to trying and ensuring that we get an optimal result for the year 2021. However, our long-term focus for India remains positive. We remain invested in our tech-agnostic approach, investing and continuing to invest in a new age topics like electrification, mobility solutions. Thank you and I await your questions.

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

Pramod Kumar: Thanks a lot for the opportunity. I hope all your employees and stakeholders are doing fine in this period. My first question is more of a clarification on your transformation charges Sir. This is like the fourth straight quarter where you have this item being called out and it has been rising, so I just want to understand between say December quarter and March quarter there has been almost Rs.1 billion kind of an increase in these charges, if you can just help us understand a breakdown of these expenses as to how much of this will be on account of employee separation and how much of this will be on account of other write-downs or impairments, which could have otherwise come in different sets on the operational line like other expenditure or raw material costs, if you can just help us understand the nature of this expense that would be very helpful?

Soumitra Bhattacharya: So Pramod we have already given you a breakup earlier in my speech itself, but I will repeat the same to you. Also we have for the full year already given an exceptional item of Rs.720 million and this includes for our 3R program, which we have talked about, restructuring, redeployment and reskilling and that is Rs.600 Crores plus and we have also done a certain amount for impairment and we also have a small amount for the BS-IV to BS-VI transition where most of the money we get back from our customers, but as a matter of caution we have provided a little bit for the BS-IV inventory. So we have been doing it quarter-to-quarter and also as you know we are very conservative and we keep a clean set of books.

Pramod Kumar: Will we expect this to kind of continue even in the next fiscal or we have seen the bulk of it already in FY2020 in terms of the transformation charges?

Soumitra Bhattacharya: Yes. So Pramod we will take it as and when we need, but there could be some more coming up I cannot state how much, but we have taken the bulk of it already in the previous year.

Pramod Kumar: Fair enough Sir and the second question is on the production outlook for the industry. I know you would not hazard a guess in terms of the percentage decline for individual subsegments, but if you can broadly share given where you sit and your discussion with the OEs as to the category packing order as to which categories do you see coming back slightly or being less impacted in terms of the supply chain dislocation and also the demand that we do and which are the ones that you can just say for the tractor what lead comes first and what could be a laggard in terms of the pace of recovery in terms of production and supply chain management, Sir?

Soumitra Bhattacharya: So Pramod, this is not only for you but for all the colleagues in the concall. I just share a set of numbers for you to understand the gravity of the situation for the industry. 2018 was the peak in the automotive industry and I am going to read out a set of numbers under different segments and then compare it with our forecast for 2020-2021. So 2018 the industry had a peak of 4.07 million cars and in 2021 we are looking at approximately 2 million. In HCV approximately 5 lakhs and we are looking in 2021 approximately of 2 lakhs. LCV we had about 7 lakh vehicles in 2018 and for 2020-2021 we are looking anywhere between Rs.2.5 lakhs to Rs.3 lakhs. In tractors the peak in 2018 was 9 lakhs and for fiscal year 2020-2021 it is anywhere between 450000 to 5 lakhs. In two-wheelers, we had a peak of 25 million in 2018 and 2020-2021 would be anywhere between 12 million and 13 million. In three-wheelers, we do not know what it could be, but we are looking at it. The point I am trying to say is we must appreciate and understand that 2018 peak was the highest ever in the shortest period between 2017 and 2018, which was an unusual week, so that we must understand. The second we must understand we had an economic slowdown in 2019-2020 where I already told you the market degrew by minus 17% and on that you must understand we have had COVID. So if it takes between three to four years for us to get back to the 2018 levels pre-COVID, post-COVID you can add another one-and-a-half years and in that as stated that if it takes between 4 years minimum to 6 years for the industry to come back then in Bosch we want to come back earlier because we have had a good acquisition BS-VI, inputs into the content per vehicle is improving. We are looking at adjacencies and we want to grow to new business areas. So it is going to be in summary a very tough call. The numbers I read out for 2021, which is our estimates right now, this has a big aspect. The aspect is if the government gives a direct stimulus these numbers will change dramatically. If the sentiment comes back and as the GDP growth dramatically changes these numbers will change. So under the current circumstances, without the stimulus this is where it looks like.

Pramod Kumar: I lost the number when you said about three-wheeler; I think there was a drop in….

Soumitra Bhattacharya: I said compared to 1.25 million in 2018, which was a peak we could be looking at a sub-1 million for 2020-2021 for three-wheelers.

Pramod Kumar: Thanks. That is very helpful Sir. I will come back in the question queue, but wish you all the luck for these tough times.

Soumitra Bhattacharya: Our whole industry needs luck Pramod.

Pramod Kumar: Yes Sir.

Moderator: Thank you. The next question is from the line of Rajesh Ranganathan from Doric Capital. Please go ahead.

Rajesh Ranganathan: I had three questions. One is related to the BS-IV, BS-VI transition. As part of the transition, we of course have gained some new market share in terms of growth in the two-wheeler business, but also there is potential for losing market share in some of the other applications such as in certain truck manufacturers due to competition, so could you give us an understanding of pre-BS-IV versus post BS-VI, how does our market share flatter look like across applications?

Soumitra Bhattacharya: I think we lost you. Can you repeat the question? Just the last part of it, how does what? We lost you there.

Rajesh Ranganathan: How is your market share look like across applications in the BS-VI scenario and how it will change over the next three years?

Soumitra Bhattacharya: Rajesh Ji if we do not give guidance, we do not give market shares. I think you have been in the call. However I can tell you a couple of facts before handing over to our Chief Technical Officer, who also runs this business, the powertrain business. We made an announcement in the auto expo this was pre-COVID naturally that we had done a lifetime acquisition for BS-VI, which was Rs.24000 Crores, which was our biggest acquisition ever that we have done in Bosch Limited. So that gives you a feeling of I would not use the word dominant I will only use that we have very good relationship with our customers where we handle from conception right up to SOP and our team headed by Mr. Röhrl has done a fantastic job on that. The second I have shared in the slides today in the press conference, we had the annual press conference and I shared the number with you. We have done 79 projects so far with our customers and one of the reasons for our R&D billing for services has been so good is because of all these projects and thirdly we believe after a slow start the

BS-VI will come back because our solutions are affordable, the pricing gap is not much between BS-IV, BS-VI and when the industry recovers you will see a higher content per vehicle from Bosch and also turnovers becoming better from this. So market share we will not comment. I think he had nothing more to add. Thank you.

Rajesh Ranganathan: So if I were to understand you correctly, I understand you do not want to provide guidance, obviously it is fair, but from a conceptual perspective, let us say we had a certain content per vehicle in the BS-IV era and in the BS-VI era for like-for-like our content will be higher, but our share of the total spend by the customer across all their platforms be the same or is that likely to decrease?

Soumitra Bhattacharya: The content per vehicle will improve. I think you have got your answer.

Rajesh Ranganathan: The second question was with respect to the export business, given that globally there is pressure in all economies by and large, so that is obviously a headwind, at the same time there is a whole talk about India becoming platform for auto export, is that something which the Bosch Group and Bosch Limited is looking at to enhance further and could you share some thoughts on that?

Soumitra Bhattacharya: So Rajesh, let me tell you a couple of facts, one in the automotive area and one in the nonautomotive area let me start with nonautomotive. Power tools business is a part of Bosch Limited and in power tools we opened a factory four years ago at Chennai in Oragadam, which has been declared for three years the best power tool factory amongst 21 power tool factories across the world and in the fourth year it is number two and the delta between number one and number two is 0.1. Now our content on power tool manufacturing for the biggest product what we call as BE is going up towards 70% and average going up to 55% and this was massively lower earlier. So you can just see, when we do well on these it goes up, the same thing for diesel. In the years and decades India has regularly done on innovative affordable products and we believe strongly we are giving innovative affordable solutions now for BS-VI. Now for the third part that I want to share and this is something for the first time that all of you are hearing. We have formed a wholly owned subsidiary inside Bosch Limited, a 100% manufacturing company and we are going to be putting a lot of new age and edge technology on manufacturing in this wholly owned subsidiary and use that and this is 100% owned by RPM. So in summary I can tell you our focus on localization will continue. We benchmark ourselves across the Bosch world. I gave you an example on power tools, I gave you an example on diesel and our approach on this will continue to be so. While also focusing on new age business where sensor, software and services will be included and with focus on digital space including focusing on battery and focusing on energy and other areas and as we make progress on official announcements we will keep you updated.

Rajesh Ranganathan: Final question from me. In terms of our focus on electrification of the automobile, what activities do you think would be within Bosch Limited and secondly how long do you think before we see electric MHCV in India or the world?

Soumitra Bhattacharya So we brought electrification into Bosch Limited with the project house electrification and we believe in India that electrification will start on the TCO benefit-wise on two-wheeler, three-wheeler, but we also believe strongly that ICE is still the dominant technology for a long time, we have stated it before, now post COVID we can state it with even greater authority, ICE will be 80% plus and maybe much more than 80% even in 2030.

Rajesh Ranganathan: Okay understood. Thank you so much and wishes all the best.

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

Ronak Sarda: Sir, my first question is on the supply chain resumption if you can just help us understand how do you see the next few months supply chain ramping up in terms of production capability if demand is there, secondly do we have still a significant exposure from China and any plans to localize that in the near future?

Soumitra Bhattacharya: I will answer it in two parts. The second part I will request our CFO, Srinivasan to say it, but I will just give the preamble and hand over to him. Look in supply chain I had already mentioned to you not to you perhaps, but in the earlier press conference, 25% of India's GDP is under the containment zone, so it is not about Bosch India the whole industry is going to face challenges in the coming months on supply chain until all containment zones are opened up. The second part I want to share is along with supply chain management India will face a major labor issue and the third and last point and this is not for Bosch Limited and I will come to Bosch Limited and hand over, automotive industry relies on Tier-1, Tier-2, Tier-3. One of the chain breaks down then the OEMs cannot deliver the vehicles. Lastly for Bosch India we do not employ a single contract labor on the shop floor and right now our employees either white collar or blue collar are not the main concern, our main concern is safety and health and we have opened up all our units and we are starting safely with 15%, 20% and we will ramp up and do what is necessary from the market demand and a customer demand and we believe that we will manage. Now on the ecosystem on our sub-suppliers our CFO will answer on the steps being taken.

S. C. Srinivasan: While our own plants have opened up and most of them are working on single shift as you know there is also a curfew between 7 p.m. and 7 a.m., so everything cannot work on all the three shifts and demand is also quite low. So we expect over both May and June to operate that way, but as the OEMs' plants also ramp up and many of them are slowly starting we should also be ramping up. However it is also important to understand that our supplier base is distributed all over India both in the north, west and the south and many of these suppliers are also in red zones, are in containment zone and as our MD just said even if one part is missing then the whole component cannot be supplied and we also face challenges because many of our suppliers have migrant labor, who after the lockdown was lifted have gone back home, so at the moment some of them have started on single shift, but if they have to move on to double shift then they will require labor and from that point of view then new labor may have to be recruited. So we have been working very closely with our supplier base including standard operating procedures, including assisting them and ramping up and what protocols need to be followed on health and safety, thermal scanning and all of that, guidelines have been issued, handbooks have been issued, so from that point of view we are having regular weekly calls with our supplier base to really assist them in ramp-up, but there are some challenges remain with respect to one on the demand side and secondly on the labor side and we do expect that ramp-up will be slow, but from our side put effort to ensure that we are able to ramp up. As far as imports from China are concerned, I think China has already ramped up quite well. In between there were some bottlenecks on logistics, but over a period of time that is also being sorted out.

Ronak Sarda: What I meant was if there demand let us say at around 50% of your levels China supplies would not be an issue, is that the correct way to read this?

S. C. Srinivasan: Unlikely to be an issue.

Ronak Sarda: I wanted to understand maybe from Bosch side and ecosystem as well, how does this impact on the cost side running on single shift and there may be some stoppages in between there is some shortage of supply, does this temporarily tweak your just-in-time system to a hybrid kind of system for time being, how are you looking at those things?

S. C. Srinivasan: So operating on a single shift definitely and also with safe distance within the plant and others is not the most optimal productivity from a point of view, from a plant efficiency point of view, so our focus during this COVID period and during this time is of course on liquidity and then we look at how do we ramp up so that yes once the production cycle starts and we know eventually demand will also start coming in, so slowly we will ramp up. So at the moment, yes, in a one-shift operation with safe distance and looking at all the protocols our productivity obviously is not at the standard at the most optimum level.

Ronak Sarda: I just wanted to understand on the inventory side are we keeping some more inventory to be on the safe side to ensure continuous supply of components, is there a tweak to the just-in-time system?

S. C. Srinivasan: In fact we have adequate inventory because if you look at it March the entire lockdown was quite abrupt and with BS-VI sort of coming in we had enough components and raw materials in our inventory. Of course there would be some elements or some parts where stocks and inventories are required. So as I said that we are in very, very close contact with all of our suppliers. Supplier wise we know exactly what is happening, what date, how many people are working on shifts, so it is all a question of when the ramping up physically can happen due to the reasons I mentioned and then inventory management can be optimized.

Ronak Sarda: Sure Sir. Thank you and take care.

Moderator: Thank you. The next question is from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: Sir two questions. One is could you just talk about the sustainability of cost, which we are seeing because of the restructuring projects, which you have undertaken how sustainable it is and going forward will we see more improvement in this that is one and the other was a bookkeeping question in your automotive product segment results it is a negative Rs.54 Crores that is because you have included the onetime restructuring cost into it right?

Soumitra Bhattacharya: So answer to your second question is yes. First question let me give an answer. This was also stated before and if you remember pre-COVID we already talked with you for nearly a year now. We started our 3R program more than a year ago before COVID and it was not knowing that COVID would come, it was a part of our transformation process and let we already told you on the redeployment because we are not just taking people out Bosch does not sack. If at all we give EVR and we have redeployed many of our colleagues, we have reskilled many of our colleagues and also we have done restructuring to ensure right span of control. Now this will continue and that is why we have also provided for. Of course it is a sustainable system. Of course you are already seeing the benefits now in these quarters and this will continue because it is not a onetime effort and more importantly what we are doing I mentioned to you that we are also trying to improve our focus and I gave you that example on BS-VI on the growth and content per vehicle through our core areas, in our adjacencies and including in the new business areas. So it is not just transformation at cost level it is also transformation at the topline level and this you will see unfolding and it is not just at one quarter it ends you will see it unfolding in 2020-2021, you will see it even more in

2021-2022, so summary is we want to bounce back in the next three years at a rate faster than the industry level.

Prateek Poddar: Sure and just if I look at other expenses, on a Y-o-Y basis any one-offs or just the normal course of business?

Soumitra Bhattacharya: You must look at other expenses in two ways. First of all on other expenses we have done tight controls, on the other side it also includes what you see as a benefit on the top side on R&D the cost of that are also there. So when you take out that on a like-to-like basis we have improved tremendously in other expenses. Already you can see the benefits in our personnel cost, you can see in a tight situation we have actually improved on our material cost and other expenses you have to look on like-to-like basis after taking out the very strong R&D turnover that we got through our projects and the costs are included there. So even that has undergone transformation and will continue and also we have an impact due to Ind-AS 115, so basically that will also be under our focus. There is no one element which is not under our focus.

Prateek Poddar: Great Sir, great and wishing you all the best. Thank you so much.

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

Jinesh Gandhi: A couple of questions from my side. First is you talked about the wholly owned subsidiary, which you have incorporated under Bosch Limited, so this would be focusing on any particular components or this would be based on primarily high-tech manufacturing and what are the components that they will be manufacturing then?

Soumitra Bhattacharya: So Jinesh, I gave you and all the colleagues on the line a feedback on our announcement so that you know. Obviously we will fill up wholly owned subsidiary. You will hear more as we go along and you will hear announcements on this. There are some very clear concrete plans on that.

Jinesh Gandhi: I understood and you also touched upon sensor software and services, so this will also be part of Bosch Limited or this is primarily at a group level and Bosch will benefit out of that?

Soumitra Bhattacharya: Bosch Limited benefits out of, for example we have got a very sophisticated electronics factory. A lot of these electronics are supplied and the ECUs are supplied by that separate legal entity directly to Bosch Limited for our powertrain systems, which we have been doing for either diesel or gasoline. So naturally these are businesses where we coordinate and work with our sister companies and Bosch Limited benefits while our sister company also benefits with a very strong footprint on electronics.

Jinesh Gandhi: Sure and you talked about 79 projects in the BS-VI, these are for passenger vehicles and commercial vehicles right?

Soumitra Bhattacharya: Our CTO, Mr. Jan Röhrl will now take over. He is running this business also by the way. He is the President for that area besides being the CTO and the JMD, so over to him.

Jan-Oliver Röhrl: The good part is the number is let us say understated, it is an understatement for more projects that we are running and it is passenger cars, it is two-wheeler by the way we always have to look at the two-wheeler marketing as well. It is 3 wheelers in that area, it is commercial vehicles whether it is light-duty, medium-duty or heavy-duty vehicles. So it is across everything that is running on highway and the beauty is that it is not limited, what we understand on the electronic fuel injection equipment and after treatment system, but I think it is noticeable to remark that one of the biggest acquisitions, single acquisitions that we had this year was linked to a hybrid vehicle, which will come to India, also under the header of BS-VI, so as we are not limiting ourselves to one technology or favoring one technology only we are very open and that is including of course let us say alternate sources of powertrain solutions and including in that case also hybrids, this is related to the on-highway part of it, but one must not forget that we have changes as well in the off-highway world and this is just coming in also end of this year in October and the biggest let us say acquisition target for us in this year is specifically in the off-highway world and coming back to let us say also the announcement from the Finance Minister and Prime Minister Modi with regards to the stimulus package, which is focusing quite a bit on agriculture. I think we can let us say support here the agriculture boost and doubling the farmers' income with technology also related to powertrain solution and help the mechanization of let us say the farmers' land.

Soumitra Bhattacharya: Jinesh, if I may add a sentence to what our CTO said. Also do not forget for you and your colleagues that a) ICE will continue to remain dominant where Bosch Limited is very strong and do not forget in diesel the mood has changed, the Government of India has openly said that we understand why particulate matter is high in terms of crop burning, stubble burning, dust and debris and including in winter the true loss. It is only 12% to 15% of this whole challenge on particulate matter, which comes from vehicles and old vehicles and to end that was the reason why the industry as well as Bosch had suggested as technology-agnostic, let us implement the scrappage policy to take out 8 lakh vehicles, which are 20 years old.

Jan-Oliver Röhrl: Just one last thought because I think our MD mentioned that with regards to the diesel, which is, of course, a CO2 efficient resource and contributing 15% less than any kind of gasoline vehicle and having in mind now that emissions are no longer a problem for the public opinion and also for the policymaker with BS-VI technology coming now into the market, which is April 1, 2020, all OEMs related to passenger cars are relooking at their engine roadmaps and bringing back also or in I would say diesel engines in their thought process and planning process beyond 2020, so also in 2023. So the diesel as any other ICE has a good future ahead.

Soumitra Bhattacharya: Finally those of you attended the auto expo very few of us did, but we were there, the pricing that the initial offerings on diesel on BS-VI are variable, the delta cap is quite amazingly low.

Jinesh Gandhi: Do you think that is because entire cost has not been passed through or just because of your affordable solution?

Soumitra Bhattacharya: Jinesh, you and me as a customer finally go and ask ourselves what is the price of a product and second you and me also know it is not sustainable for anyone to do something, which makes a product, so I think in India we are good where we partner between us companies like us and others with OEMs to finally give a solution to the customer who satisfied. I think let us be thankful for that.

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

Pramod Amthe: First is a clarification with regard to your BS-VI acquisition, which is a new number, which we have put across of big Rs.24,000 Crores, this is to be executed over what duration of time if you can give some sense on that?

Jan-Oliver Röhrl: So let us say the lead projects they will come in now as we speak to the market for passenger car, for commercial vehicles we have a lot of variant projects in that. You can imagine that one is not limiting itself to, let us say, one driveline, but there are two to three, sometimes four drivelines that we have to cater our solutions to. This is for this year. This is for next year as well because as I just mentioned, let us say, other OEMs are relooking at their engine strategy for 2021 and the years to follow so also for state when BS-VI stage 2, so the Indian real driving emissions would be kicking in and acknowledging that as I stated earlier diesel is a CO2-efficient fuel resource combined with common way technology and after treatment system like SCR we can do good here. So this is for the years to come it is not limited here to 2020 only, but also 2021, 2022 and then 2023. The acquisitions have just started now for the stage 2 BS-VI RDE, which is kicking in 2023. This is by the way something which the automotive industry of course is also still needing. We are relying on the firm policy, in India let us say 2 to 3 years now has done a very good job in that and also astonished the automotive world with the precision of introduction dates and I just can hope and wish all the policymakers that they continue on that path. The next thing to really target would be the CO2 and having clear ideas on what plans, on what the CO2 target would be for the years to come.

Pramod Amthe: The second question is considering the government plans of Make in India projects for many of the components and you guys do a lot of high engineering stuff and you have been acquiring big customer acquisitions. So in that context how are you trying to fit in to reduce the import costs in a bigger scale say for three years down the line for you to do more in India?

Soumitra Bhattacharya: Look Pramod, our company has been doing Make in India since 1953 and we are very clear that whichever product we can localize at the right time, which we can also offer and which makes commercial sense in terms of volume we will localize and we have seen the benefits of localization, but you cannot randomly localize for everything. So Make in India will be a continued focus. We did it well before the Make in India strategy in India. We will continue that and BS-VI is a classical example of global working, local engineers working and arriving at solutions there. We got a pre-COVID acquisition value of Rs.24000 Crores and as our CTO mentioned much more than the declared 79 projects. That tells you a story. So in summary we still believe that the midterm both India and we will bounce back and in the long run India is still a sweet spot in the world. In the short run we are going to go through a very, very tough time, all of us.

Pramod Amthe: Sure, thanks and all the best.

Soumitra Bhattacharya: We have the last two questions, Jayaraj, from the colleagues?

Annamalai Jayaraj: Yes, Sir, we will take only one more followup.

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

Sonal Gupta: Good afternoon Sir and thanks for taking my question. Sir just a clarification on this new age business subsidiary if this is owned by Bosch Limited or by the parent?

Soumitra Bhattacharya: We told you it is 100% subsidiary of Bosch Limited.

Sonal Gupta: Just on the hybrid side, like you mentioned you have done some acquisitions on the hybrid side, so could you give us some sense of, what all components are you doing on the hybrid side?

Jan-Oliver Röhrl: Well we offer ourselves always as a system solution provider and this is adding of course from the topline perspective significantly and by the way not only when we start selling components, but also when we are, let us say, writing down the efforts from the engineering side and that is why we could contribute also top line-wise on the engineering services already for Bosch Limited. So we are looking for system solutions while we are also not limiting ourselves to only offer a whole system, but components depending on what the customer is asking for and we are following here the customer requirements.

Sonal Gupta: Okay Sir great. Thank you so much.

Moderator: Thank you. Due to time constraints that was the last question. I now hand the conference over to Mr. Annamalai Jayaraj for closing comments.

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

Soumitra Bhattacharya: Thank you Mr. Jayaraj. Thank you colleagues for joining in. Stay safe and stay healthy.

Moderator: Thank you. On behalf of B&K Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.