

Amber Enterprises

Refer to important disclosures at the end of this report

Fund raise to accelerate growth from FY23

CMP: Rs 1,978
as of (September 17, 2020)

TP: Rs 2,140 (▲)
12 months

Rating: HOLD (■)

Upside: 8.2 %

- Amber recently concluded a QIP of Rs4bn to fund its expansion plans including two greenfield plants for components (both AC and non-AC) and finished goods. The purchase of the residual stake (20%) in Sidwal Refrigeration will also be funded from this.
- Government's increased focus on self-reliance and potential import duty increase through phased manufacturing program, should benefit domestic firms. Despite healthy RAC volume growth over the years, component manufacturing ecosystem is a missing link.
- Amber's relationship with brands and focus on gaining higher wallet share are working well and management is confident on further increasing the share through component supplies. Low RAC penetration will continue to work in favor of Amber in the medium- to long term.
- We bake in capacity expansion benefits from FY23 with optimistic revenue assumptions. We value Amber 25x on FY23E EPS to arrive at a revised TP of Rs2,140 and retain Hold rating. RAC industry growth trends and timely execution will be the key monitorables.

Aiming for higher wallet share through increased focus on components: Over the last couple of years, Amber has been focusing on backward integration through the acquisition of component manufacturing companies. According to management, it is now ~70% backward-integrated (excluding compressors). This will give Amber an edge over smaller contract manufacturers and lead to gaining a higher proportion of customer wallet share. In addition, this can provide significant opportunities in component exports over the long term. Amber has recently started exporting small quantities of components to the US. The unfavorable duty structure for importers under the phased manufacturing program (PMP) should lead to a reduction in imports in a few years. Only ~30-40% of motors and PCBAs are domestically manufactured now. This augurs well for non-AC components as well. Amber will set up one of the two greenfield plants close to customers' washing machine and refrigerator plants.

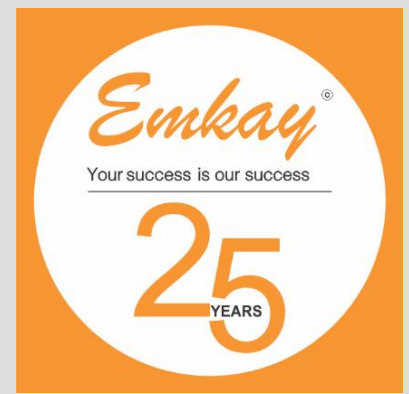
Outlook: The company is well-placed to capture the import substitution benefit on finished products as well as component manufacturing. We estimate Amber's volume market share to increase to 28% by FY23 from 22% in FY20, driven by increased volumes through import substitution and capacity expansion. Both AC and non-AC components are expected to see a 19% CAGR over FY20-23E. We are not factoring in revenue accruing from exports as the company is yet to secure orders after reliability tests. The valuation re-rating in the past couple of months was backed by import substitution opportunity, while we believe that execution and earnings trajectory will decide the stock price direction going forward. Key risks: significant outperformance to RAC industry volume growth assumption, fast-paced market share gains, delayed implementation of the PMP program by the government, sizeable export orders resulting in better asset turn and return ratios and heightened competitive intensity.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Consumer Durables \(Page 11\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	27,520	39,628	33,779	47,818	61,954
EBITDA	2,129	3,093	2,398	3,969	5,204
EBITDA Margin (%)	7.7	7.8	7.1	8.3	8.4
APAT	937	1,584	933	2,026	2,882
EPS (Rs)	29.8	50.4	27.7	60.1	85.5
EPS (% chg)	50.3	69.1	(45.0)	117.1	42.3
ROE (%)	10.0	15.0	6.8	11.7	14.7
P/E (x)	66.4	39.3	71.4	32.9	23.1
EV/EBITDA (x)	30.2	21.1	27.9	17.1	12.9
P/BV (x)	6.3	5.5	4.1	3.7	3.2

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	5.0/(1.9)
Target Price change (%)	32.2
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	27.7	60.1
Consensus	27.3	62.6
Mean Consensus TP (12M)	Rs 1,730	

Stock Details

Bloomberg Code	AMBER IN
Face Value (Rs)	10
Shares outstanding (mn)	34
52 Week H/L	2,114 / 812
M Cap (Rs bn/USD bn)	67 / 0.90
Daily Avg Volume (nos.)	2,62,588
Daily Avg Turnover (US\$ mn)	6.4

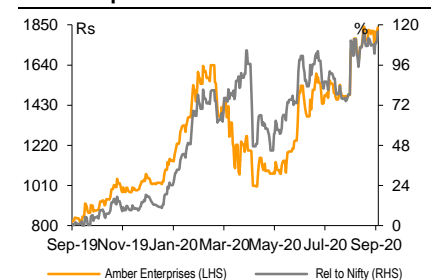
Shareholding Pattern Jun '20

Promoters	44.0%
FIIIs	13.3%
DIIIs	6.6%
Public and Others	36.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	11	40	63	140
Rel. to Nifty	9	21	27	126

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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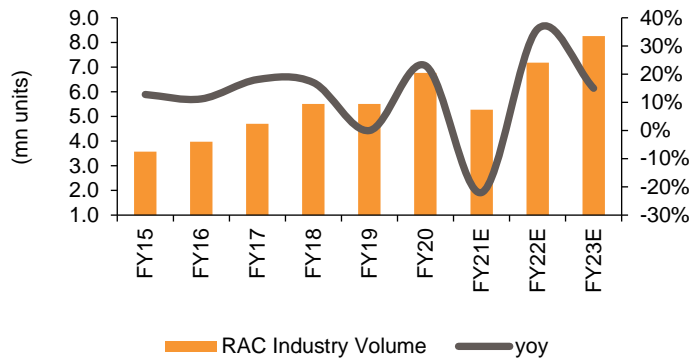
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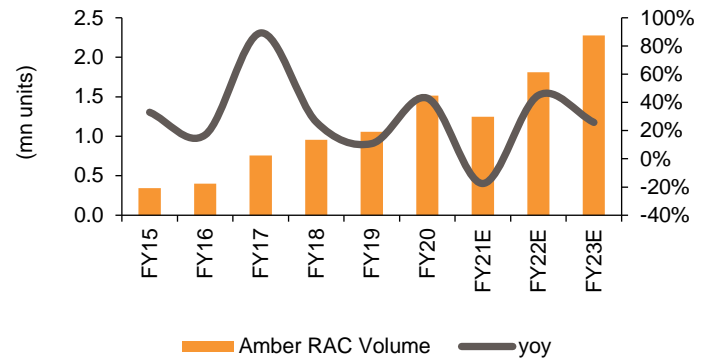
Story in Charts

Exhibit 1: RAC Industry is expected to see 7% volume CAGR over FY20-23E



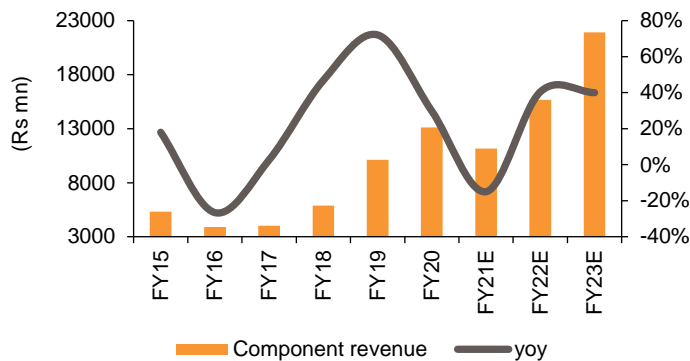
Source: Industry, Emkay Research

Exhibit 2: Amber's RAC volume is expected to see 15% CAGR over FY20-23E



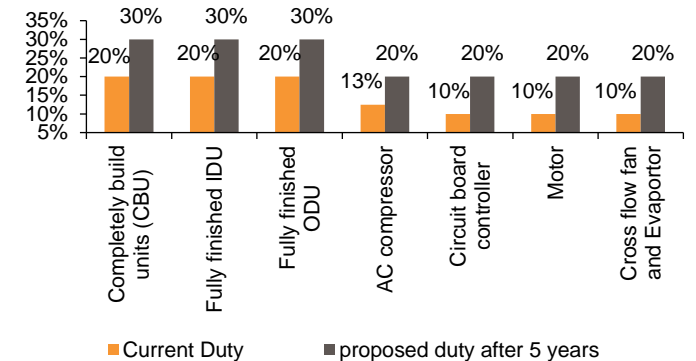
Source: Company, Emkay Research

Exhibit 3: Components revenue is estimated to clock 19% CAGR in FY20-23E



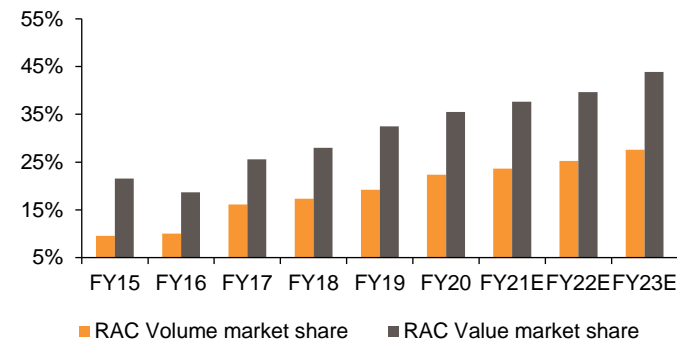
Source: Company, Emkay Research

Exhibit 4: Proposed increase in import duty structure in a phased manner over next five years



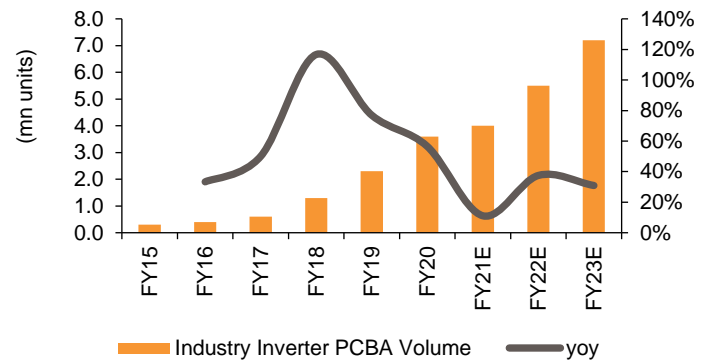
Source: Media articles

Exhibit 5: Amber continues to gain market share in RAC



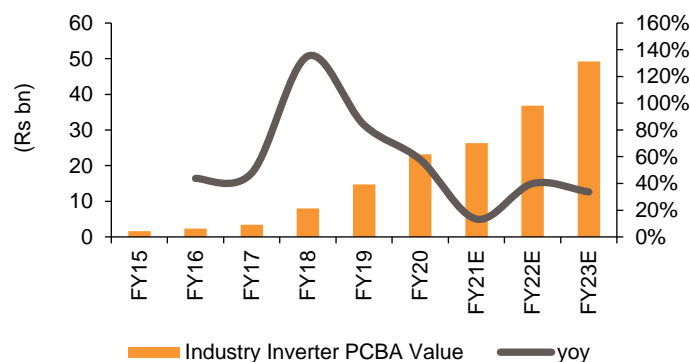
Source: Company, Emkay Research

Exhibit 6: Inverter PCBA volume is estimated to witness 26% CAGR over FY20-23E



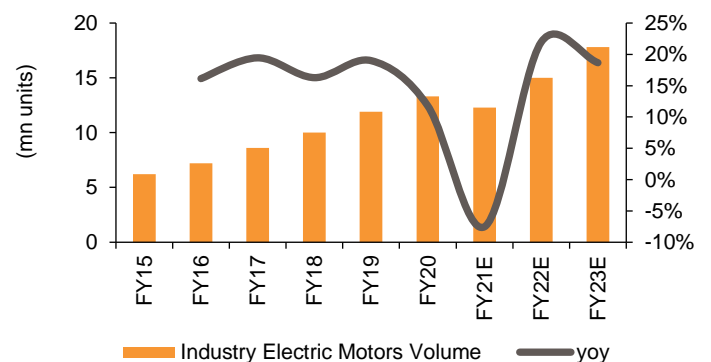
Source: Amber QIP document, Emkay Research

Exhibit 7: Inverter PCBA industry to reach Rs49bn by FY23E



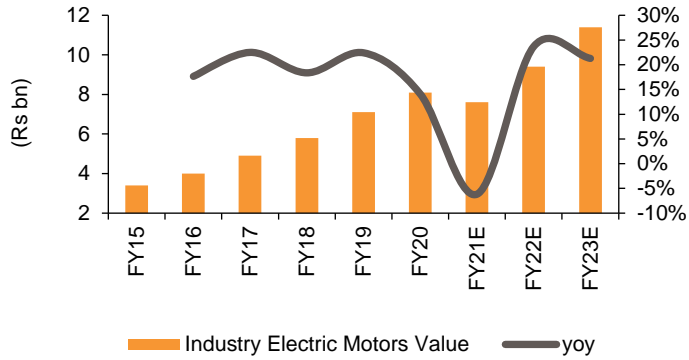
Source: Amber QIP document, Emkay Research

Exhibit 8: Electric motor industry volume is estimated to see 10% CAGR in FY20-23E



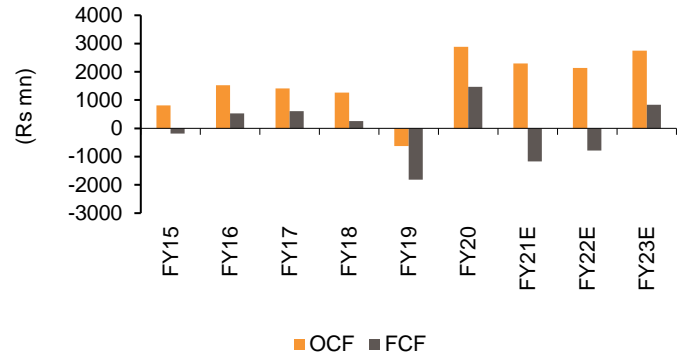
Source: Amber QIP document, Emkay Research

Exhibit 9: Electric motor industry to reach Rs11bn by FY23E



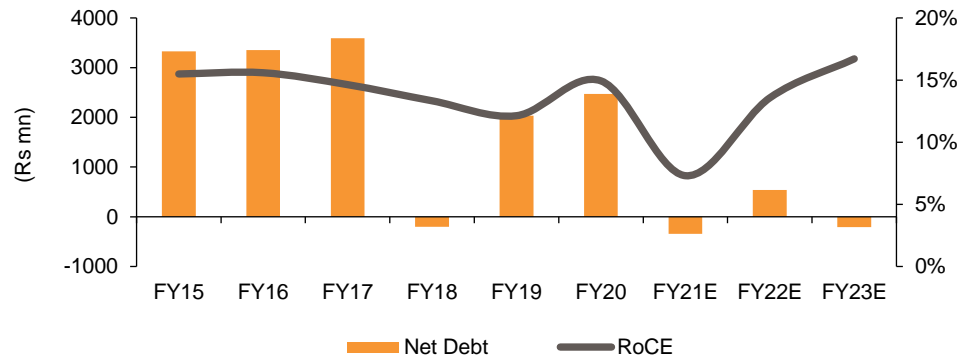
Source: Amber QIP document, Emkay Research

Exhibit 10: FCF generation likely from FY23E



Source: Company, Emkay Research

Exhibit 11: RoCE to remain <20% even in FY23E

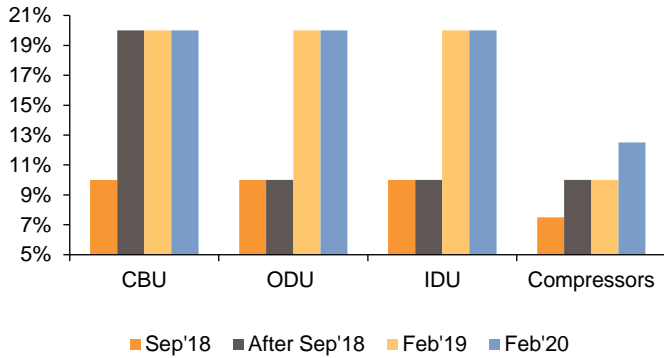


Source: Company, Emkay Research

RACs: Low penetration and continued rise in import duty to favor Amber and other contract manufacturers

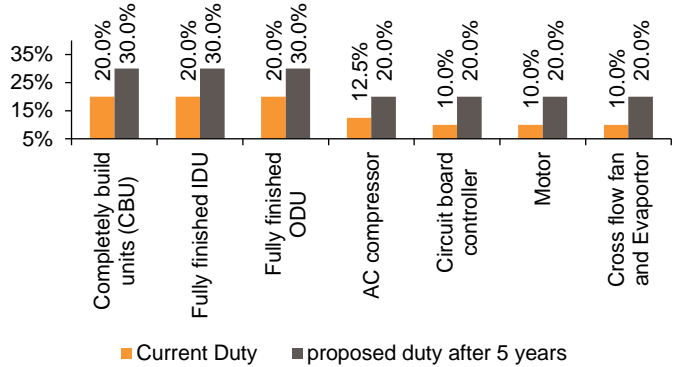
The government is looking at increasing import duties on most of the AC components to drive indigenization. In the past, the duty increase has helped contract manufacturers, with a shift in volumes from China. The majority of the brands have also stated their intent to reduce dependency on imports (see Exhibit 13).

Exhibit 12: Import duties on air-conditioner and components have been rising



Source: GOI, Emkay Research

Exhibit 13: Proposed change in import duty structure over five years in a phased manner



Source: Industry, Emkay Research

Exhibit 14: Commentary of various RAC companies on increasing exposure for domestic procurement

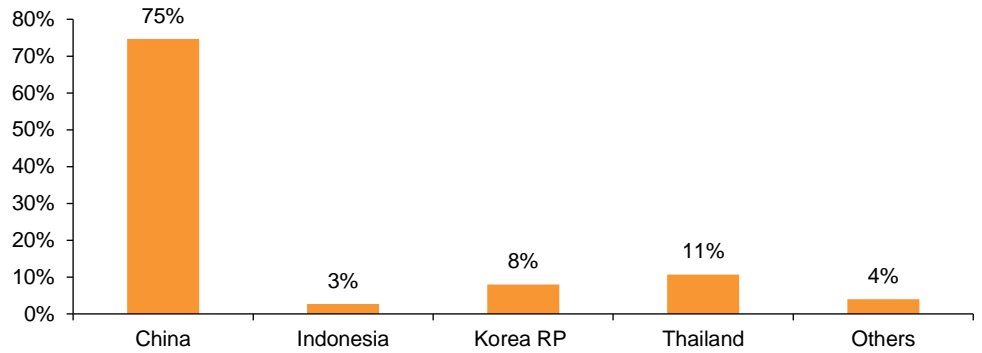
Company	Comments
Voltas	The company is exploring to have a new manufacturing hub in the South as the company believes that domestic manufacturing will play an important role going ahead. The country is becoming self-reliant and expanding manufacturing capacity. As a Tata Group company, Voltas is in sync with the government direction and is looking to increasingly source domestically.
Daikin	Daikin will go ahead with its investment plan for setting up a third manufacturing unit in India in a bid to augment local production capacity. Daikin Industries is ready to take advantage of the Phased Manufacturing Program (PMP), under which the government has announced incentives for manufacturers to promote 'Make in India.'
Hitachi	Hitachi is looking to halve imports and double exports. Hitachi imports 40% of the parts and plans to reduce imports by half over next one year and double exports to 50,000 units. 30% of the Rs160bn AC market is imported. In the remaining Rs112bn, 50% of the parts are imported, reducing domestic market pie to Rs80bn. Hitachi is working on the indigenization of PCB and compressors, and have formed associations with MSMEs and SMEs to promote domestic manufacturing.
Panasonic India	Panasonic India is now taking steps to start the manufacturing of compressors, motors and motor condensing units by bringing its technology in the next 3-5 years and is also looking at possible technological collaboration with domestic component manufacturers. The phased manufacturing approach in the next five years will make local manufacturing competitive.
Blue Star	Blue Star aims to reduce imports to 15%, including components, by 2023. Blue Star started the journey of reducing imports three years back and imports stand at ~30% now. The company would be more than willing to work with domestic suppliers for sourcing components.

Source: Media articles, Emkay Research

China has the lion's share in RAC exports globally. In value terms, China exported RACs worth USD16.2bn in CY19, which translates into 35.5% share in global RAC exports. The US is the largest importer of RACs, with a total value of USD9bn (CY18), implying a global import share of 19%. Tariff barriers by the US on Chinese products and China 'plus one' strategy could potentially benefit Indian contract manufactures if any volume shift happens from China. Even a 5-10% shift from China could mean a huge opportunity for Indian players. In our view, given the sheer manufacturing scale in China, India would have limited scope for gaining any cost advantage over China in the case of fully built-up RAC units.

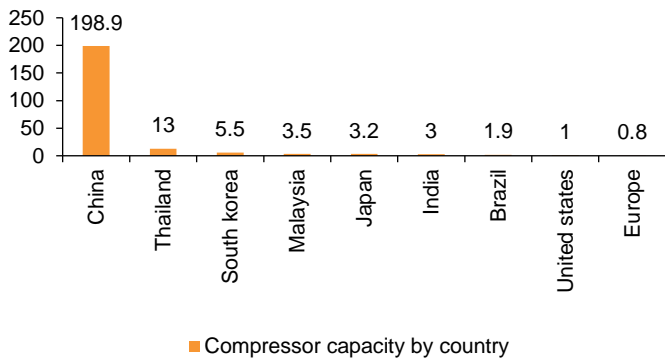
Currently, the dependency on China is very high for compressors and other components. Smaller components such as PCBAs and motors are likely to see faster indigenization. Bigger scale and improved ecosystem of component manufacturing should also boost export opportunities. In the case of compressors, capacity additions, apart from Highly and GMCC, will happen only gradually given the high investment requirements and longer time frames for break-even.

Exhibit 15: Dependency on China is very high for RAC compressor imports



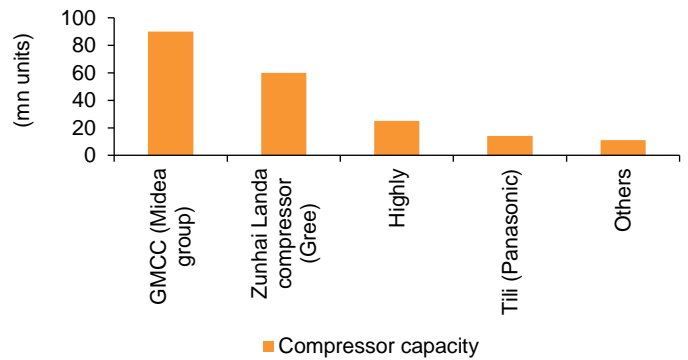
Source: Department of Commerce, Emkay Research

Exhibit 16: China dominates world in AC compressor manufacturing



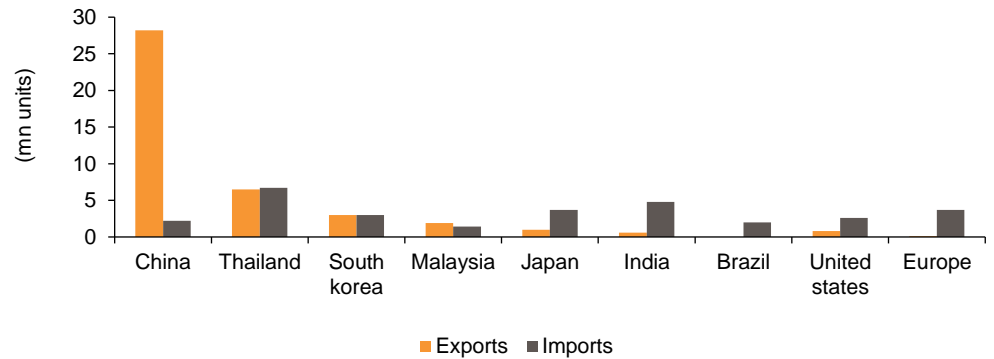
Source: CEEMAC Analysis, Emkay Research

Exhibit 17: AC compressor capacity by various players in China



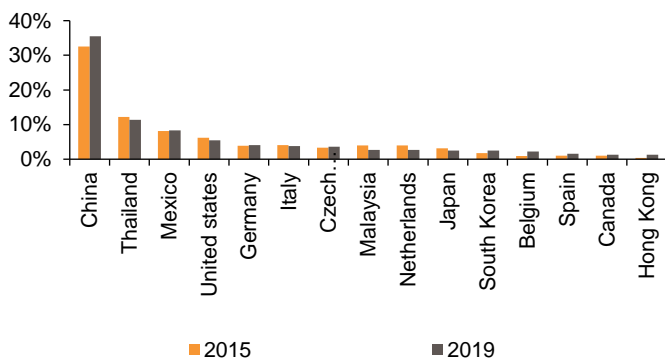
Source: Company websites, Emkay Research

Exhibit 18: Exports and Imports of AC compressors by various countries



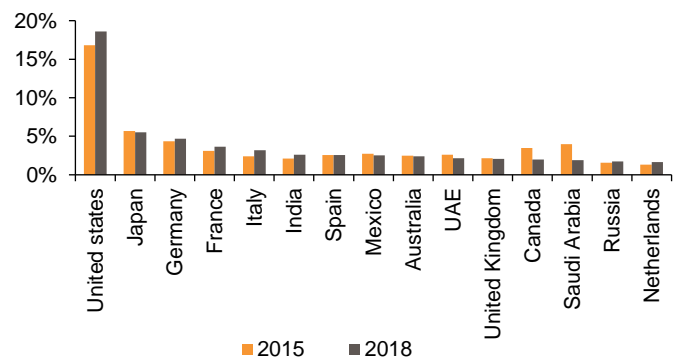
Source: Company, Emkay Research

Exhibit 19: China dominates world air-conditioner exports

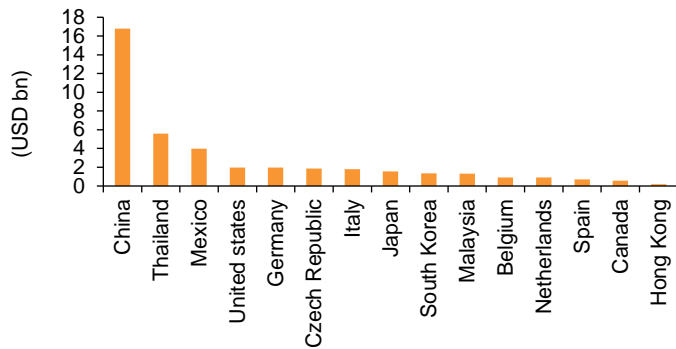


Source: OEC World, Industry, Emkay Research

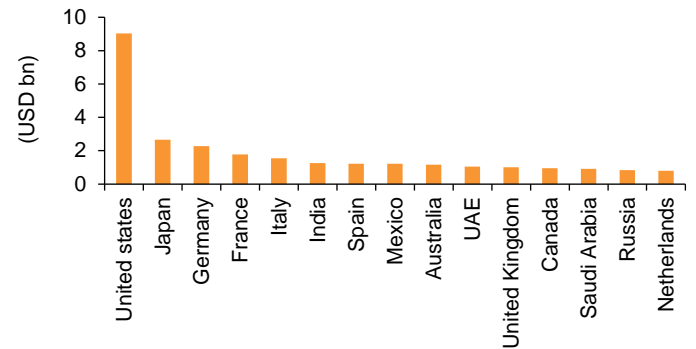
Exhibit 20: US is the largest importer of air-conditioners



Source: OEC World, Industry, Emkay Research

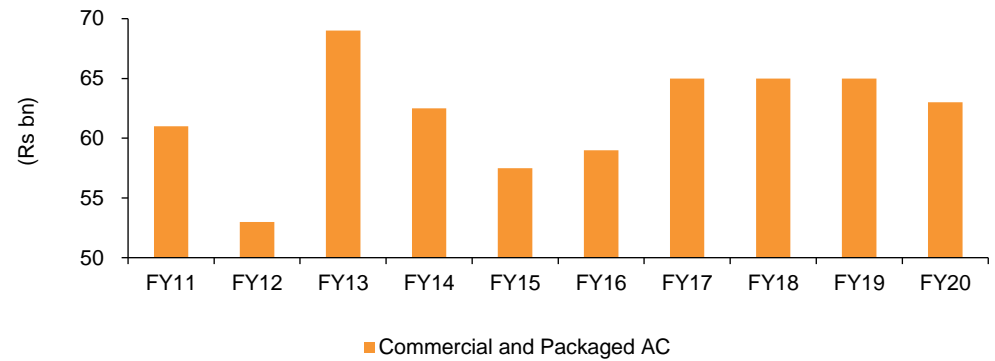
Exhibit 21: China exports ~USD17bn worth of air conditioners

Source: OEC Research, Company

Exhibit 22: US imports ~USD9bn worth of air conditioners

Source: OEC Research, Company

In addition, the company has the potential to gain from China 'plus one' strategy, which can drive exports in the medium- to long term, along with the recent entry into the commercial AC segment. Given Amber's track record in the RAC segment, we believe that the company has the potential to win customers in this segment as well. Although the company has started manufacturing commercial ACs for a couple of domestic companies, volumes are still low. However, management is confident of scale-up in the medium- to long term.

Exhibit 23: Commercial AC industry revenues have been stagnant from FY17

Source: Blue Star AR, Emkay Research

Estimate changes

We have marginally tweaked FY21 and FY22 component revenues and have raised FY23 numbers as we incorporate capacity expansion in both components and finished products. The new plants and expanded facilities are expected to start commercial operations from Q4FY22. PAT increase in FY21 is attributable to lower finance charges and higher other income after the recent fund raising.

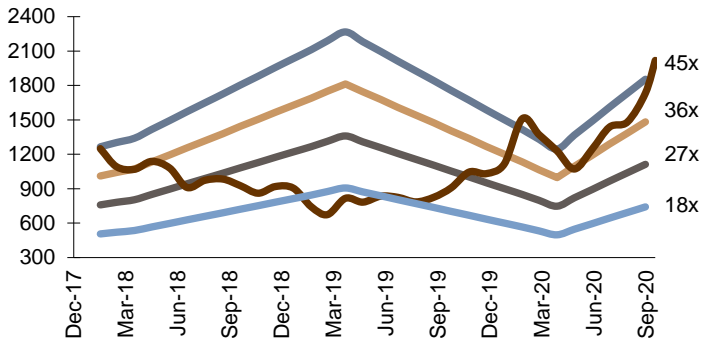
Exhibit 24: Changes in estimates

Particulars	FY21E			FY22E			FY23E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
AC Revenue	20,003	20,003	0.0%	29,149	29,149	0.0%	32,647	36,673	12.3%
Non AC Revenue	14,695	13,776	-6.3%	20,509	18,669	-9.0%	22,956	25,282	10.1%
Revenue	34,697	33,779	-2.6%	49,658	47,818	-3.7%	55,603	61,954	11.4%
EBITDA	2,463	2,398	-2.6%	3,973	3,969	-0.1%	4,420	5,204	17.7%
EBITDA Margin %	7.1	7.1	0 bps	8.0	8.3	30 bps	8.0	8.4	45 bps
PAT	830	933	12.5%	1928	2026	5.1%	2145	2882	34.4%
EPS	26.4	27.7	5.0%	61.3	60.1	-1.9%	68.2	85.5	25.4%

Source: Emkay Research. EPS change is different on account of fund raise leading to change in number of shares

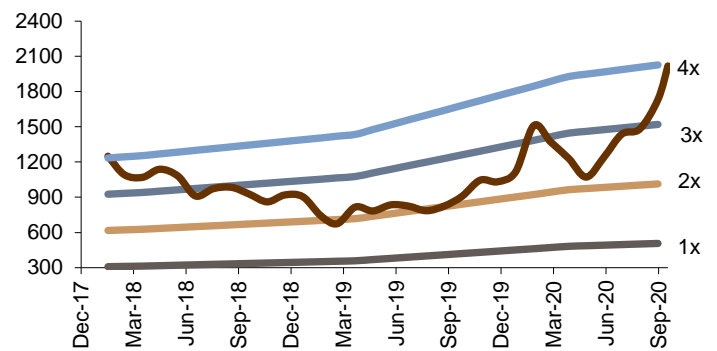
Valuation charts

Exhibit 25: 1-year forward P/E band



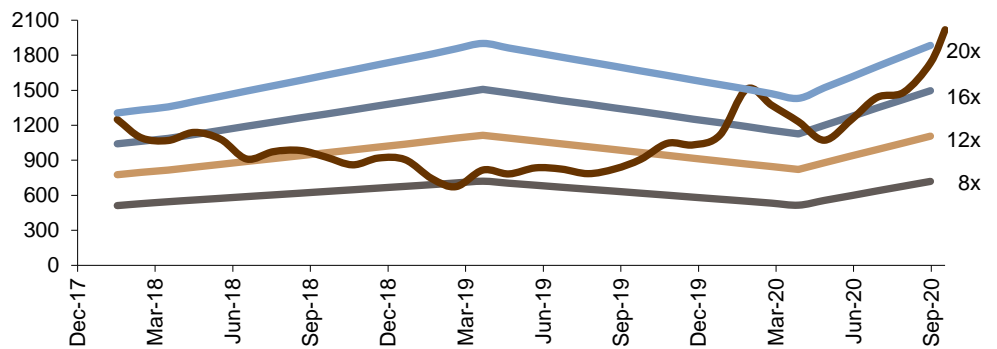
Source: Company, Emkay Research

Exhibit 26: 1-year forward P/B band



Source: Company, Emkay Research

Exhibit 27: 1-year forward EV/EBITDA band



Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	27,520	39,628	33,779	47,818	61,954
Expenditure	25,391	36,535	31,380	43,849	56,750
EBITDA	2,129	3,093	2,398	3,969	5,204
Depreciation	623	848	1,048	1,186	1,296
EBIT	1,506	2,245	1,351	2,783	3,908
Other Income	99	82	120	61	38
Interest expenses	246	419	135	106	61
PBT	1,359	1,907	1,336	2,738	3,886
Tax	412	266	374	689	978
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	11	57	29	23	25
Reported Net Income	937	1,584	933	2,026	2,882
Adjusted PAT	937	1,584	933	2,026	2,882

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	314	314	337	337	337
Reserves & surplus	9,547	10,970	15,909	17,904	20,744
Net worth	9,861	11,284	16,246	18,241	21,081
Minority Interest	190	348	348	348	348
Loan Funds	2,479	3,675	675	1,175	675
Net deferred tax liability	438	678	678	678	678
Total Liabilities	12,969	15,985	17,947	20,442	22,782
Net block	8,095	11,058	13,477	15,208	15,828
Investment	0	0	0	0	0
Current Assets	15,276	17,833	15,586	21,047	27,264
Cash & bank balance	401	700	514	135	378
Other Current Assets	1,150	1,741	1,588	1,955	2,325
Current liabilities & Provision	10,739	13,024	11,234	15,930	20,428
Net current assets	4,537	4,809	4,352	5,116	6,836
Misc. exp	0	0	0	0	0
Total Assets	12,969	15,985	17,947	20,442	22,782

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	1,260	1,826	1,216	2,677	3,847
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(2,280)	268	271	(1,144)	(1,477)
Operating Cashflow	(631)	2,882	2,295	2,136	2,749
Capital expenditure	(1,657)	(3,592)	(3,467)	(2,917)	(1,917)
Free Cash Flow	(2,287)	(710)	(1,171)	(781)	833
Investments	57	0	0	0	0
Other Investing Cash Flow	383	245	0	0	0
Investing Cashflow	(1,117)	(3,266)	(3,346)	(2,856)	(1,878)
Equity Capital Raised	0	0	22	0	0
Loans Taken / (Repaid)	1,340	1,195	(3,000)	500	(500)
Dividend paid (incl tax)	0	(121)	0	(54)	(67)
Other Financing Cash Flow	1,055	429	4,678	514	135
Financing Cashflow	2,149	1,084	1,565	854	(493)
Net chg in cash	401	700	514	135	378
Opening cash position	1,194	401	700	514	135
Closing cash position	401	700	514	135	378

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	7.7	7.8	7.1	8.3	8.4
EBIT Margin	5.5	5.7	4.0	5.8	6.3
Effective Tax Rate	30.3	13.9	28.0	25.2	25.2
Net Margin	3.4	4.1	2.8	4.3	4.7
ROCE	13.7	16.1	8.7	14.8	18.3
ROE	10.0	15.0	6.8	11.7	14.7
RoIC	14.3	16.4	8.3	14.8	18.4

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	29.8	50.4	27.7	60.1	85.5
CEPS	49.6	77.3	58.8	95.3	124.0
BVPS	313.6	358.8	482.2	541.4	625.7
DPS	0.0	3.2	0.0	1.6	2.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	66.4	39.3	71.4	32.9	23.1
P/CEPS	39.9	25.6	33.6	20.8	16.0
P/BV	6.3	5.5	4.1	3.7	3.2
EV / Sales	2.3	1.6	2.0	1.4	1.1
EV / EBITDA	30.2	21.1	27.9	17.1	12.9
Dividend Yield (%)	0.0	0.2	0.0	0.1	0.1

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.2	0.3	0.0	0.1	0.0
Net Debt/EBIDTA	1.0	1.0	0.1	0.3	0.1
Working Cap Cycle (days)	54.9	37.8	41.5	38.0	38.0

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	29.3	44.0	(14.8)	41.6	29.6
EBITDA	16.0	45.3	(22.5)	65.5	31.1
EBIT	11.9	49.1	(39.8)	106.0	40.4
PAT	50.3	69.1	(41.1)	117.1	42.3

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue	12,359	6,232	7,884	13,152	2,595
EBITDA	1,164	367	543	1,019	(55)
EBITDA Margin (%)	9.4	5.9	6.9	7.7	(2.1)
PAT	612	118	226	628	(224)
EPS (Rs)	18.2	3.5	6.7	18.6	(6.7)

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	44.0	44.0	44.0	44.0	44.0
FII	11.4	11.5	12.5	12.4	13.3
DII	5.7	6.0	6.0	7.2	6.6
Public and Others	38.8	38.5	37.5	36.4	36.1

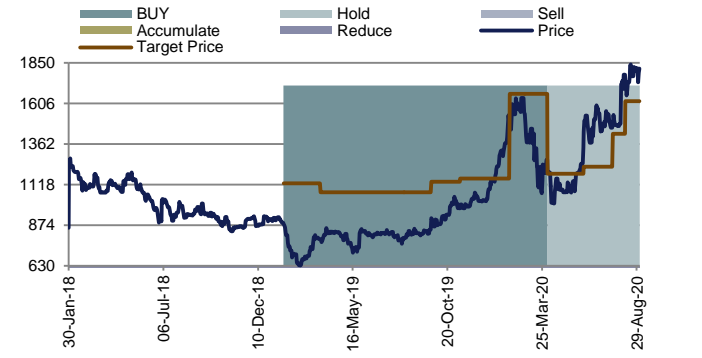
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
10-Aug-20	1,714	1,619	12m	Hold	Naval Seth
20-Jul-20	1,484	1,424	12m	Hold	Naval Seth
02-Jun-20	1,437	1,225	12m	Hold	Naval Seth
07-Apr-20	1,190	1,184	12m	Hold	Naval Seth
03-Apr-20	1,193	1,184	12m	Hold	Naval Seth
16-Mar-20	1,225	1,664	12m	Buy	Naval Seth
05-Mar-20	1,423	1,664	12m	Buy	Naval Seth
13-Feb-20	1,606	1,664	12m	Buy	Naval Seth
31-Jan-20	1,510	1,664	12m	Buy	Naval Seth
16-Dec-19	1,016	1,154	12m	Buy	Naval Seth
28-Nov-19	1,016	1,154	12m	Buy	Naval Seth
19-Nov-19	987	1,154	12m	Buy	Naval Seth
10-Nov-19	976	1,154	12m	Buy	Naval Seth
23-Sep-19	916	1,136	12m	Buy	Naval Seth
11-Sep-19	843	1,072	12m	Buy	Naval Seth
09-Aug-19	799	1,072	12m	Buy	Naval Seth
13-Jun-19	817	1,072	12m	Buy	Naval Seth
27-May-19	826	1,072	12m	Buy	Naval Seth
20-May-19	743	1,072	12m	Buy	Naval Seth
08-Apr-19	835	1,072	12m	Buy	Naval Seth
26-Mar-19	780	1,072	12m	Buy	Naval Seth
23-Mar-19	790	1,072	12m	Buy	Naval Seth
14-Mar-19	815	1,126	12m	Buy	Naval Seth
11-Feb-19	700	1,126	12m	Buy	Naval Seth
21-Jan-19	880	1,126	12m	Buy	Naval Seth

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Consumer Durables



Analyst: Naval Seth

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Sector

Consumer Durables, Media & Entertainment, SMID and Telecom

Analyst bio

Naval holds an MBA in Finance and has more than 12 years of experience in equity research. His team currently covers 18 stocks spread across three different sectors.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Consumer Durables	0.81	0.81	0%	0	100.00
Amber Enterprises	0.00	0.01	NA	1	1.24
Blue Star	0.00	0.00	NA	0	0.00
Crompton Greaves CE	0.18	0.19	7%	1	24.08
Dixon Technologies	0.00	0.04	NA	4	4.61
Havells India	0.27	0.24	-11%	-3	29.6
V-Guard Industries	0.00	0.00	NA	0	0.00
Voltas	0.25	0.22	-9%	-2	27.84
Whirlpool Of India	0.11	0.10	-9%	-1	12.58
Cash	0.00	0.00	NA	0	0.02

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

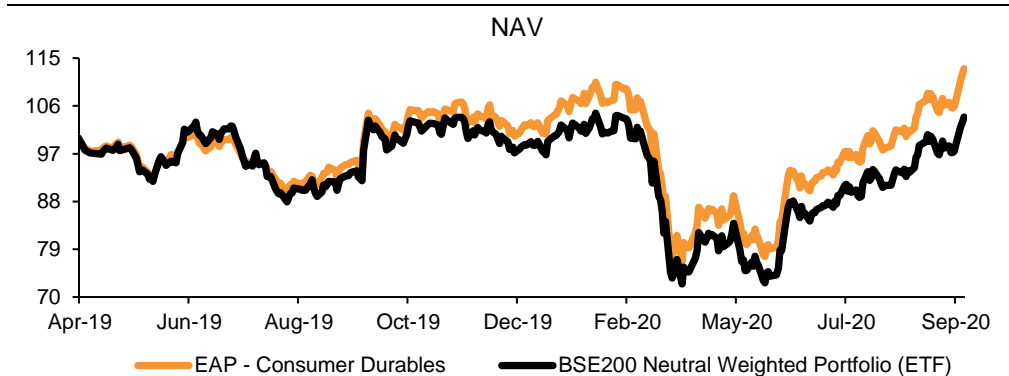
Sector portfolio NAV

	Base					Latest
	01-Apr-19	16-Dec-19	18-Mar-20	17-Jun-20	17-Aug-20	16-Sep-20
EAP - Consumer Durables	100.0	102.2	90.9	91.7	101.8	113.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	99.2	86.1	85.9	94.4	103.9

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 17 Sep 2020 23:44:01 (SGT)

Dissemination Date: 17 Sep 2020 23:45:01 (SGT)

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