Amber Enterprises India

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Amber Enterprises India

Reduce

DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH• PRECISE• ACTIONABLE

Initiating Coverage

Amber Enterprises is a contract manufacturer of Room Air Conditioners (RAC) and a market leader with ~22% share in overall RAC manufacturing and ~55% share in RAC contract manufacturing. It is expected to be a key beneficiary as the AC outsourcing mix is expected to improve from the current 38% to ~50% on back of a CAGR of 15%-17% for the AC industry over the next 5 years We expect it to grow faster than the industry over this period due to its large customer base (customers have cumulative share of ~75% of the AC market in India). Given the recent stock price run up, we initiate coverage with a Reduce, valuing the stock at 32xFY22E, giving us a target price of Rs1900. However, we like the structural story and would recommend the stock should further price correction occur.

Play on AC under penetration and outsourcing story

India has a low AC penetration at 6%, which should improve on factors like increasing electrification, lowering power consumption of operating ACs, increasing penetration of consumer financing and rising income levels. We expect outsourcing model to continue and AC outsourcing mix is expected to improve from the current 38% to ~50% on back of a CAGR of 15%-17% for the AC industry over the next 5 years. Amber, a market leader with ~55% share in RAC contract manufacturing will be a key beneficiary.

De-risking, localization theme and export are additional drivers

Amber is de-risking its business by reducing dependence on the RAC and address issues of seasonality in its core business. In past three years, reduced the mix of RAC from 72% in FY18 to 61% by FY20. The acquisition of Sidwal, mainly into air conditioning of rail and metro coaches, is a step in that direction. Exports as an alternate to seasonality. The other driver for Amber is going to be the greater emphasis on self-sufficiency. ACs have been identified as among the 12 products where the government plans to promote domestic manufacturing Phased Manufacture Program and a production linked incentive (PLI) with a similar incentive structure to that of mobile PLI is expected to be implemented in the near future.

Initiate coverage at Reduce

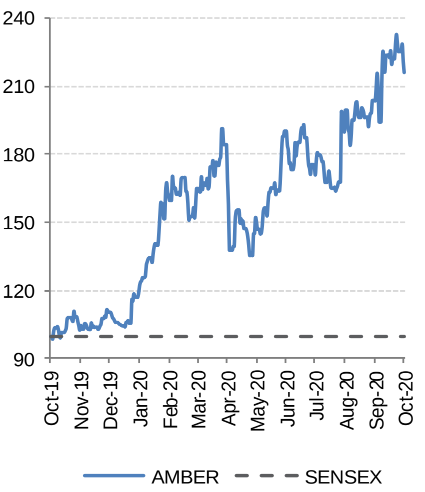
Given the strong tailwinds of growth in terms of AC under penetration and likely incentive structure similar to that of mobile PLI is expected to be implemented in the near future, the stock price has had a strong run. Even if we value at 32x (in line with branded peers like Voltas and AC), we arrive at a target price of Rs1900, which where the stock is. Hence we initiate with a Reduce rating. However, we like the structural story and would recommend the stock should a price correction occur.

FINANCIALS (Rs Mn)

Particulars	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	21,281	27,520	39,628	34,647	43,864
Growth(%)	27.6	29.3	44.0	(12.6)	26.6
EBITDA	1,835	2,192	3,093	2,829	4,093
OPM(%)	8.6	8.0	7.8	8.2	9.3
PAT	623	1,011	1,641	1,146	1,988
Growth(%)	22.8	62.2	62.4	(30.2)	73.5
EPS(Rs.)	18.5	30.0	48.7	34.0	59.0
Growth(%)	22.8	62.2	62.4	(30.2)	73.5
PER(x)	105.6	65.1	40.1	57.4	33.1
ROANW(%)	9.9	10.8	15.5	8.3	11.5
ROACE(%)	13.1	10.9	14.5	9.0	11.4

CMP	Rs 1,952
Target / Downside	Rs 1,900 / 3%
BSE Sensex	39,914
NSE Nifty	11,739
Scrip Details	
Equity / FV	Rs 314mn / Rs 10
Market Cap	Rs 66bn
	US$ 898mn
52-week High/Low	Rs 2,120/Rs 861
Avg. Volume (no)	285,152
NSE Symbol	AMBER
Bloomberg Code	AMBER IN
Shareholding Pattern Jun'20(%)	
Promoters	44.0
MF/Banks/FIs	6.6
FIIs	13.3
Public / Others	36.1

Amber Ent. Relative to Sensex



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Investment Thesis

- Amber is a play on the AC under penetration story in India
- Amber is also de-risking its business model to reduce dependency on the RAC business as well as seasonality
- Exports and incentives for local production to achieve self-sufficiency are additional growth drivers

Risk

- Any decision of the customer to reduce outsourcing or ACs or increase in house making
- Any disruption in the supply chain which may affect production of ACs
- Slowdown in the overall economy can slowdown the growth for the AC industry.

Catalyst

- Announcement of any incentive scheme from the government for supporting local manufacturing of ACs will be a catalyst for Amber

Event

- Q2FY21 results in October/November 2020

Company Background

Amber Enterprises is a contract manufacturer of Room Air Conditioners (RAC), following both the OEM and ODM model of operations. It also manufactures AC & non-AC components and provides air conditioning solutions for railways, metros, defense, bus and commercial segments under the mobile applications segment via its subsidiary Sidwal. Amber is the market leader with ~22% share in overall RAC manufacturing and ~55% share in RAC contract manufacturing

Assumptions

- We estimate a 13% decline in sales in FY21 with a marginal improvement in the margins on account of the business mix
- We estimate a 27% growth in sales in FY22 on assumption of recovery in business and operating leverage providing a margin of 9.3%

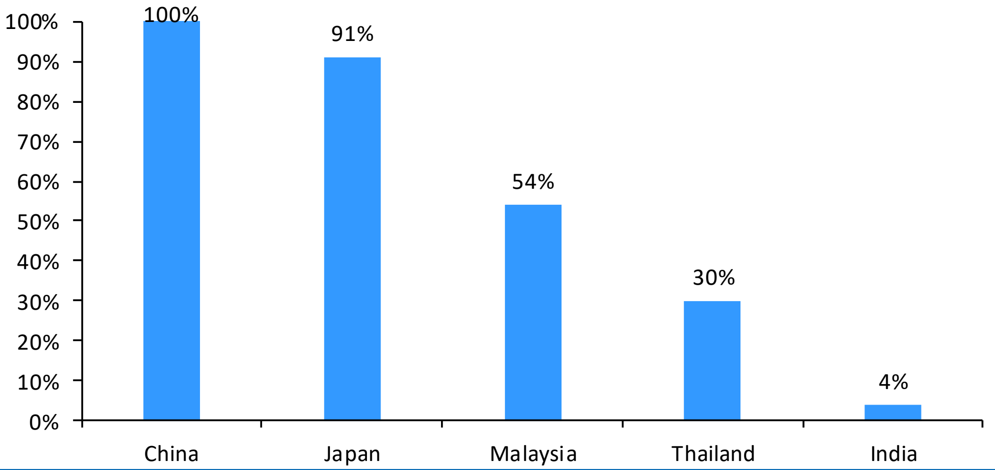
Amber Enterprises is a contract manufacturer of Room Air Conditioners (RAC), following both the OEM and ODM model of operations. It also manufactures AC & non-AC components and provides air conditioning solutions for railways, metros, defense, bus and commercial segments under the mobile applications segment via its subsidiary Sidwal. Amber is the market leader with ~22% share in overall RAC manufacturing and ~55% share in RAC contract manufacturing. AC penetration levels in India is low at ~6% compared to >90% in Japan and China. Currently 38% of RAC manufacturing is done via the contracting business. We expect AC penetration in India and contract share of RAC manufacturing to increase over time with the RAC industry expected to grow at a CAGR of 15%-17% over the next 5 years.

We expect the company to grow faster than the industry over this period due to its large customer base (customers have cumulative share of ~75% of the AC market in India) and growing exports on the back of China+1 strategy and expected Government schemes on boosting local manufacturing. We expect margins to expand over the near term from 7.8% in FY20 to 9.3% in FY22E on the back of improving product mix due to higher contribution from Sidwal and the effect of synergies thereof. Given the recent stock price run up, we initiate coverage with a Reduce, valuing the stock at 32xFY22, giving us a target price of Rs1900. However, we like the structural story and would recommend the stock should further price correction occur.

Play on AC under penetration story

The AC penetration in India is low at ~6%, compared to >90% in China and Japan. Based on a study done by Frost & Sullivan in FY18, India had one of the lowest penetration levels at 4% as compared to other Asian peers. This number has subsequently improved to 6%, which should keep improving as the industry expects growth in the teens in the medium term.

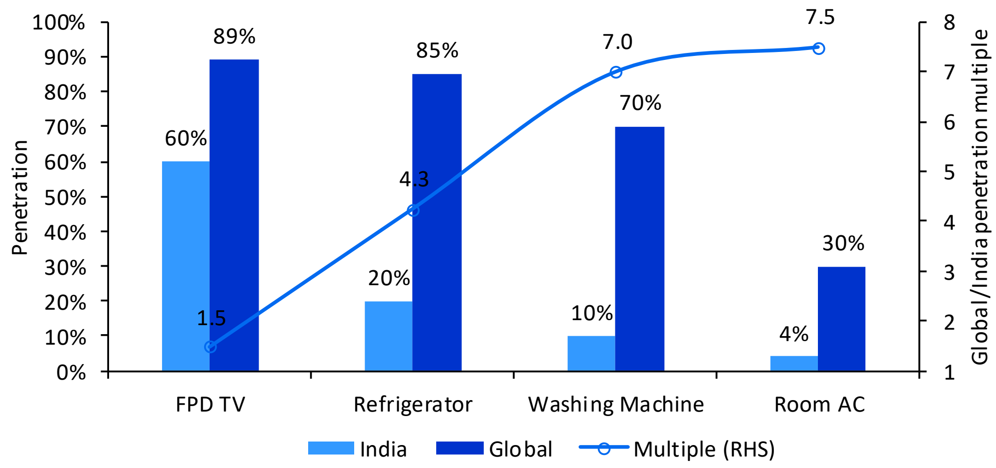
Exhibit 1: Penetration levels of AC in different countries in FY18



Source: DART, Frost & Sullivan

AC penetration is also a lot lower as compared to other consumer durables products. While the data talks of penetration in FY18, we believe the relative gaps in penetration has not changed much among these products. This also gives ample scope for ACs to increase their penetration as the buyer focus shifts, having bought other appliances.

Exhibit 2: Penetration levels of AC vs other consumer durables products in FY18



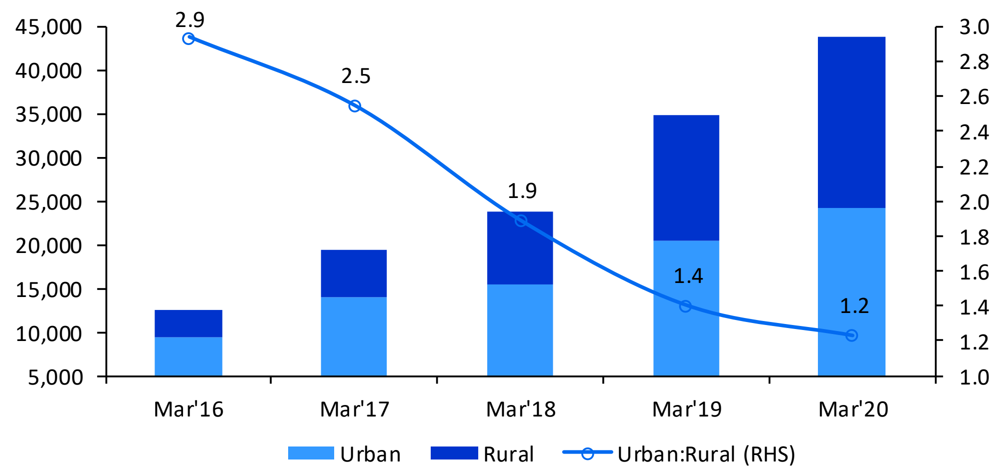
Source: DART, Frost & Sullivan

The other macro factors that we believe that will lead to higher penetration of ACs are: Increasing electrification, lowering power consumption of operating ACs, lowering maintenance costs, increasing penetration of consumer financing in Tier 2 & 3 cities, rising per capital GDP and rising household savings in India, augurs well for the AC growth story in India.

A key contributor in the consumer durable growth in recent times has been the role of consumer financing. This segment is rapidly expanding with incremental expansion coming in non-urban areas, which should also keep driving growth for appliances like ACs.

Using the example of one of the consumer financing leaders, Bajaj Finance, as a consumer financing proxy, we note how its distribution network for consumer durables has expanded over the last 4 years, especially the expansion of its rural network, which augurs well for rural sales.

Exhibit 3: Bajaj Finance's increasing distribution network (points of sale) – Consumer Durables stores

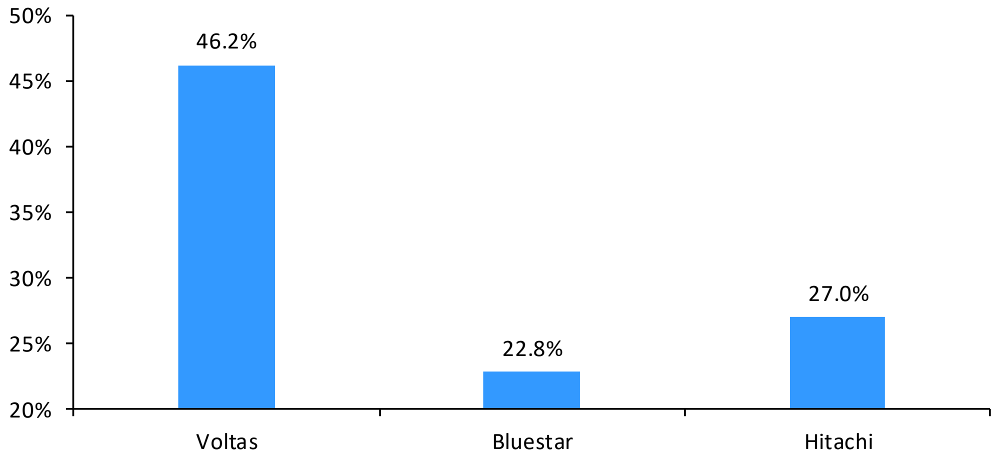


Source: Bajaj Finance

Outsourcing model likely to continue in India

The RAC players prefer to outsource manufacturing due to the lower cost of manufacturing on the back of cheaper contract labour, economy of scale with the contract manufacturers and avoidance of the long wait period for greenfield projects to being manufacturing. It also helps in outsourcing the seasonality factor. Most major RAC players have varying degree of outsourcing but this model will sustain in our view, as they build their brand and network.

Exhibit 4: FY20 stock-in-trade as % of COGS

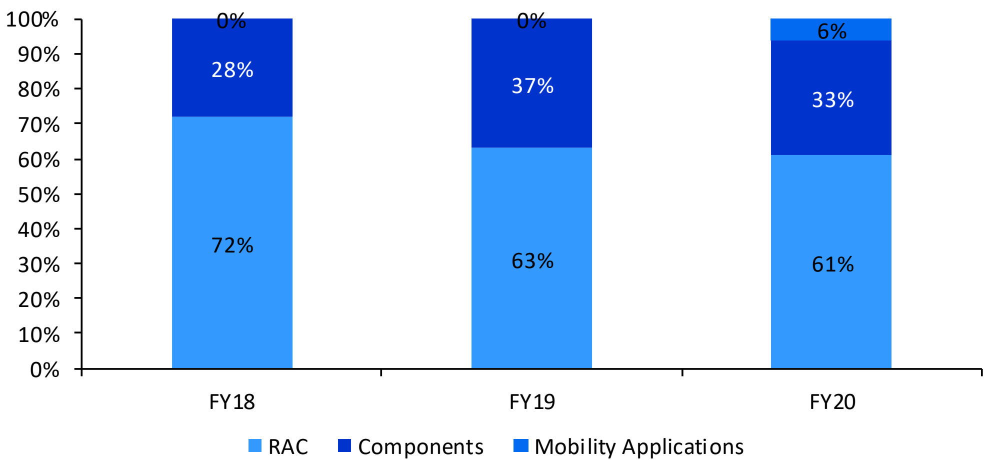


Source: Voltas, Bluestar, Hitachi

Amber is de-risking its business model

Amber has also de-risked its business model by reducing dependence on the RAC business as well as address issues of seasonality in its core business. The recent acquisition of Sidwal, which operates in the mobile applications business, provides a range of benefits along with helping reduce the seasonality impact from the RAC business.

Exhibit 5: Increasing diversification of product mix



Source: Company, DART

~70-75% of Sidwal's revenues comes from railways, which has a 6-7-year entry barrier for new players to get qualified as suppliers. A similar process exists for the defense business, the hurdle which Sidwal has already crossed. The company is a market leader in the Indian Railways segment with a 51% share. As of FY20, the company has EBITDA margins of 22.6%, ROE of 29.2% and ROCE of 46.4%. Sidwal has an order book of Rs.5,500mn which is equivalent to 2.3x Sidwal's FY20 revenues. ~21% of this order book was secured in Q1FY21, a quarter that was hit.

Self-sufficiency and exports can be added growth drivers.

The OEM comfort for a China+1 strategy coupled with Government thrusts of Phased Manufacturing Programme (PMP) and expected Product Linked Incentive (PLI) scheme brings in the opportunity for Amber for larger scale manufacturing of RAC and components.

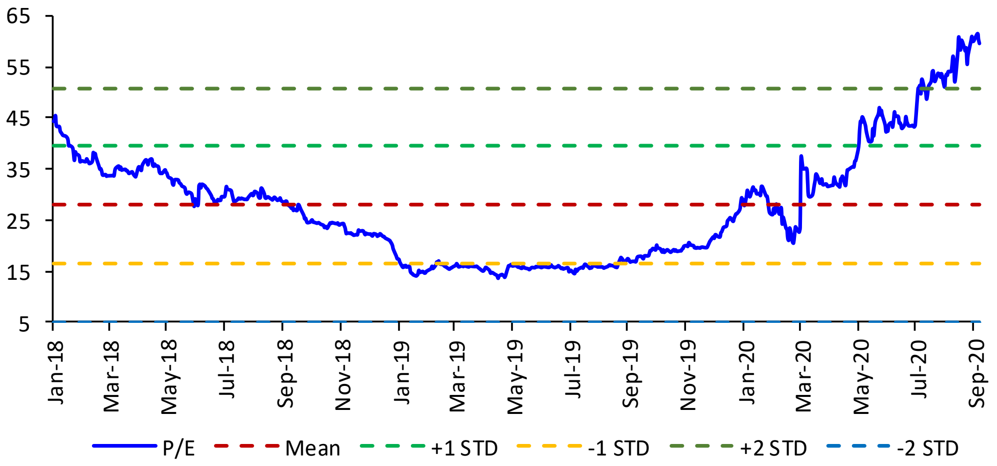
The exports market has its entry barriers in terms of reliability cycles usually ranging from 1-2 years. The company has started getting inquiries from big global players for RACs as well as components. It has received prototype orders from US, which are undergoing reliability cycles and expects to launch them by Dec'20-Jan'21.

The other driver for Amber is going to be the greater emphasis on self-sufficiency. ACs have been identified as among the 12 products where the government plans to promote domestic manufacturing. Phased Manufacture Program with a similar incentive structure to that of mobile PLI is expected to be implemented in the near future, though the exact shape is not known at this point in time.

Initiate coverage at Reduce

Given the strong tailwinds of growth in terms of AC under penetration and likely incentive structure similar to that of mobile PLI is expected to be implemented in the near future, the stock price has had a strong run. Even if we value at 32x (in line with branded peers like Voltas and AC), we arrive at a target price of Rs1900, which where the stock is. Hence we initiate with a Reduce rating. However, we like the structural story and would recommend the stock should further price correction occur

Exhibit 6: 1-yr Forward P/E Band Chart



Source: Company, DART

Company Description

Amber is the market leader in RAC manufacturing with ~22% share and in RAC contract manufacturing with ~55% share. It also manufactures AC & non-AC components and provides air conditioning solutions for railways, metros, defense, bus and commercial segments under the mobile applications segment via its subsidiary Sidwal.

Manufacturing

The company has 15 manufacturing facilities strategically located near customer clusters.

Exhibit 7: Manufacturing Facilities

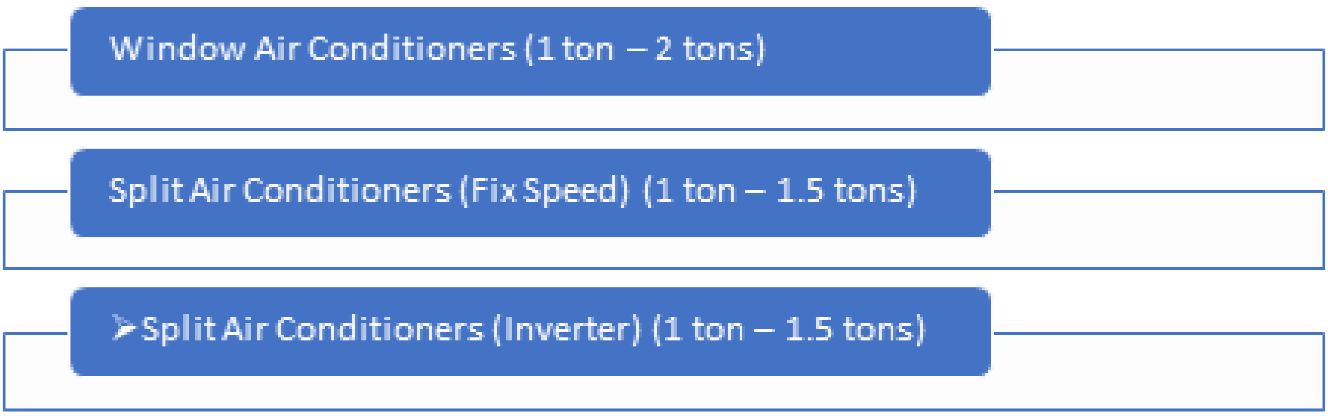
State	Location	No. of units
Haryana	Jhajjar, Faridabad	5
Uttar Pradesh	Ecotech, Kasna	3
Uttarakhand	Dehradun	3
Maharashtra	Pune	2
Punjab	Rajpura	1
Himachal Pradesh	Kalambh	1

Source: Company, DART

Room Air Conditioners (RAC) Segment

The company's RAC annual total capacity is 5 mn units.

Exhibit 8: RAC product



Source: Company, DART

AC Components

Amber sells wide range of AC components like heat exchanger, electric motor, copper tubing, sheet metal component, injection moulding components, printed circuit board assembly (PCBA).

Exhibit 9: Major Components

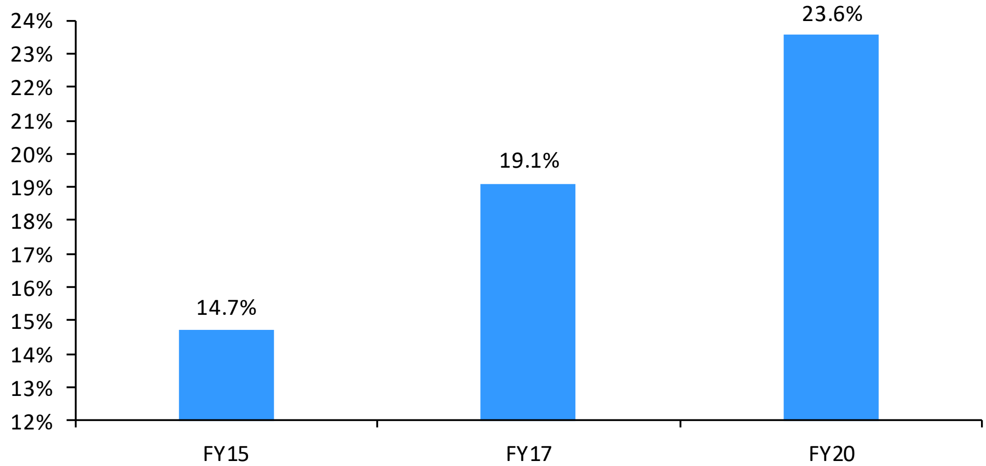
	Annual capacity	Customers
PCBA	10.5 mn	LG, IFB, Panasonic, Hitachi, Bluestar, Voltas, Carrier Midea and captive usage.
Electric Motor	4 mn	Daikin, Panasonic, Hitachi, Bluestar, Carrier, Voltas, Carrier Midea and captive usage. Also exports to US and Middle East.
Heat Exchanger	7 mn coils	LG, Daikin, Panasonic and captive usage.

Source: Company

Increasing RAC market share

As per the company, it has increased its market share from 14.7% in FY15 to 23.6% in FY20.

Exhibit 10: Increasing RAC market share



Source: Company, DART

Non-AC Components and Mobile Application Segment

Non-AC Components

Amber sells wide range of AC components like plastic extrusion, vacuum forming, sheet metal component, washing machine tub, printed circuit board assembly (PCBA).

Mobility and other Air Conditioning Applications

The company operates this segment through its subsidiary Sidwal, that provides air conditioning solutions to railways, metros, buses and defense.

Sidwal

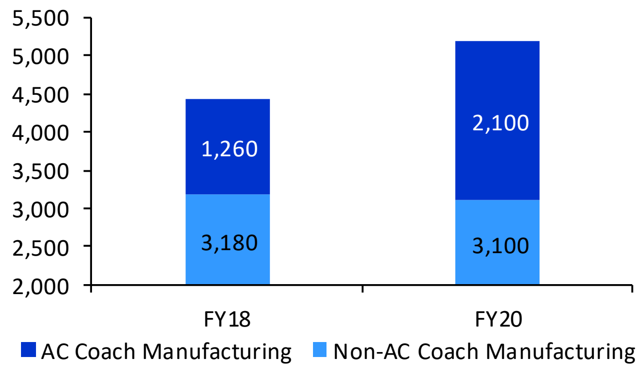
Amber acquired 80% stake in Sidwal Refrigeration Industries Private Limited in May'19 for a consideration of Rs.1,517mn and has agreed to acquire remaining 20% of Sidwal within 25 months and hence recognized Rs.603mn as the consideration payable.

This business was acquired for the following reasons:

- To gain access to expertise of manufacturing HVACs for railways, metros, buses and to additionally explore opportunities across sectors like defense, telecom, etc.
- It helps Amber skip the high entry barrier of the usual 6 to 7 years of approval process to get business from customers like Railways and Defense.
- Since Sidwal's business is non-seasonal in nature, it complements the seasonal RAC business and gives Amber some stability of operations throughout the year.
- Some level of cross selling exists where some Sidwal products can be sold to existing customers of Amber.
- Synergy through procurement of similar raw materials.

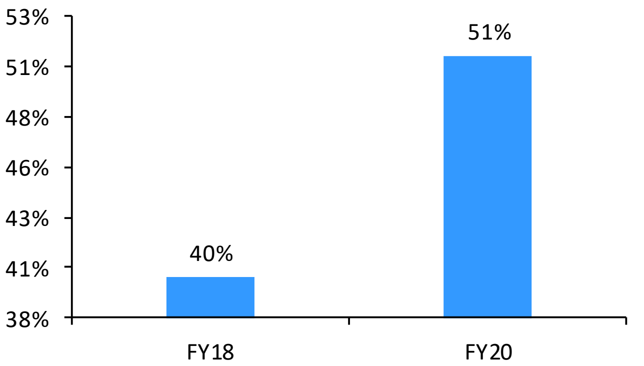
Visibility of growth through increasing number of metros and number of railways AC passenger coaches.

Exhibit 11: Sidwal's business mix



Source: Company, DART

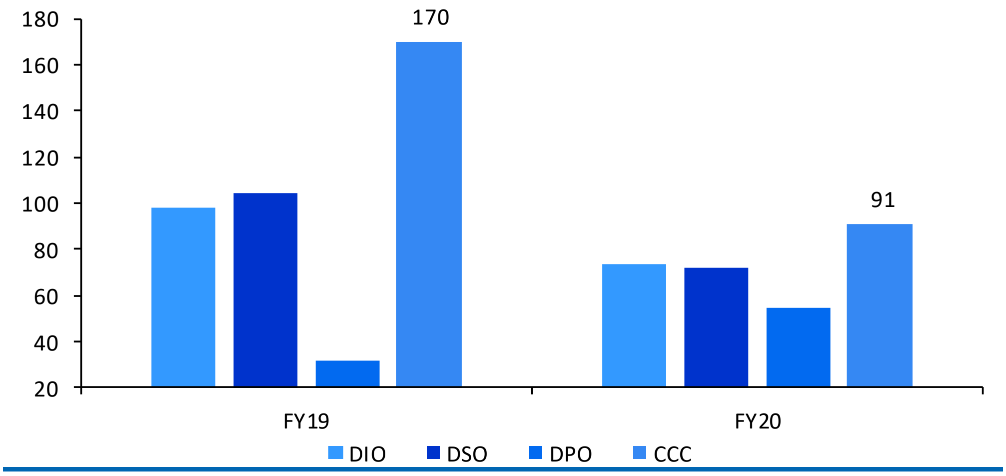
Exhibit 12: Sidwals market share



Source: Company, DART

Sidwal's market share for roof mounted package air conditioning units (RMPU) for Railways AC has increased from 40% in FY18 to 51% in FY20.

Exhibit 13: Amber has been able to improve Sidwal's working capital



Source: Company, DART

The EBITDA margins of Sidwal improved from 16.6% in FY19 to 22.6% in FY20 on the back of improvement in operations, cost efficiencies and synergies.

Subsidiaries

PICL (India) Private Limited

The business is into manufacturing of various kinds of fractional horse power motors for WACs (Window Air Conditioners), SACs (Split Air Conditioners) and commercial air conditioners. Amber acquired PICL in FY13.

IL JIN Electronics (India) Private Limited

The company holds 70% stake in this subsidiary. It is in the business of manufacturing, assembling, dealing, importing and exporting of electronic assembled printed circuit boards for home appliances and automobile products. Amber acquired IL JIN Electronics in FY18.

EVER Electronics Private Limited

The company holds 70% stake in this subsidiary. It is in the business of assembly of electronics printed circuit boards for ACs and other consumer durables, home appliances and automobiles. Amber acquired 19% stake in EVER Electronics in FY18 and another 51% stake in Oct'19.

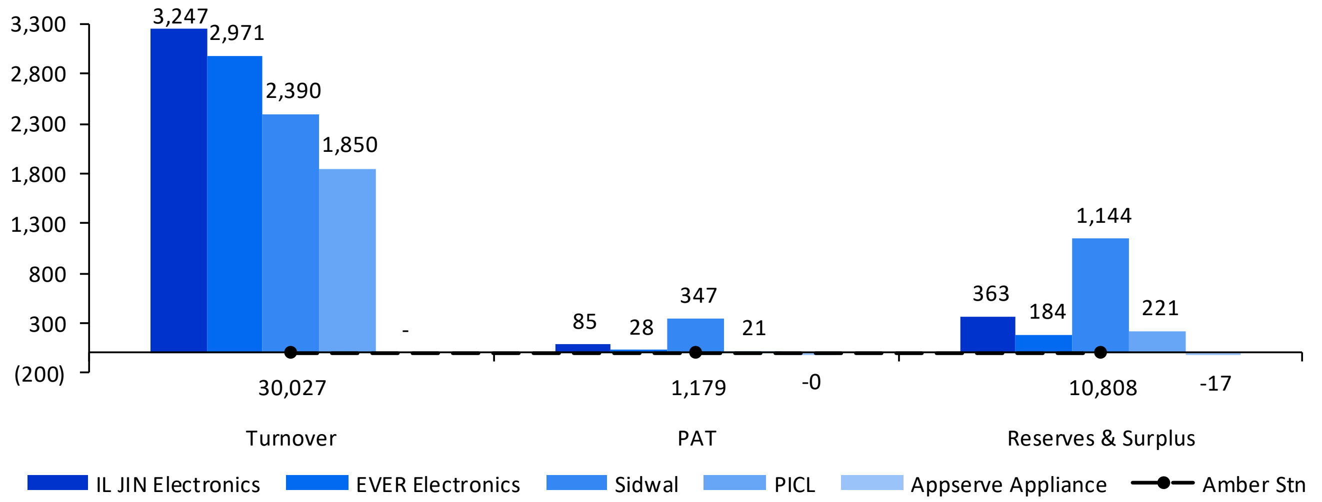
Sidwal Refrigeration Industries Private Limited

The company holds 80% stake in this subsidiary. It is engaged in the manufacturing and sale of Heating, Ventilation and Air Conditioning equipment for railways, metros, defense, bus, telecom, commercial refrigeration and related components for private and Government customers. We estimate that 70-75% of Sidwal's revenues come from the Indian Railways.

Appserve Appliance Private Limited

This is in the business of manufacture, repair, maintenance, installation, assembly and routine servicing activities of all kinds of white goods like RACs, washing machines, refrigerators, consumer durables and other similar equipment and components.

Exhibit 14: How the subsidiaries stack up (Rs mn)



Source: Company, DART

The Capacity Utilization Conundrum

Domestic demand for ACs is squeezed into periods when the weather is hot, like the summer season. In anticipation, there is a lead time in production of the components and units. During the off season, the production of these products slows down. The capacity utilization levels fall and this is not an optimum scenario for the company, either financially or operationally.

The solution to this is looked at from multiple angles like increasing exports during the off season, making manufacturing plants fungible for production of non-ac components and solutions for mobile applications and taking utilization beyond 100% in the peak seasons by operating on double shifts. Currently the peak capacity utilization stands at 92%-95%. The exports season usually starts in May and ends by October, most of which is the offseason for the domestic market.

Export opportunities for Amber

The company has started exporting components to Sri Lanka, Bangladesh and US. It sees good opportunity in the exports market over the medium to long term. The company has started getting inquiries from big global players for RACs as well as components.

Since the air conditioners used in the US are not the typical split or window ACs used in India, the company is developing new models for that market. It has received prototype orders from US and expects to launch them by Dec'20-Jan'21.

In the exports market, the testing process is done via a reliability cycle, which usually lasts between 9-18 months. Post this, the customers begin with small orders and gradually scale up if they are satisfied with the association. Amber is currently working on moving past this entry barrier and should be able to do so over the medium term.

On a base case, even though we do not see significant contribution from exports in the near term, we expect the contribution to improve meaningfully over the medium to long term. However, if the expected Government schemes come through, we can expect the exports segment to do well earlier than expected. AC is one of the 12 champion sectors identified by the Government to make India a global manufacturing hub.

Management

Chairman and CEO – Mr. Jasbir Singh

He has been working on the Board of Amber since Oct'04 and was appointed as Chairman and CEO from 25th August 2017. He has more than 16 years of experience in the RAC manufacturing sector. He holds a bachelor's degree in engineering in industrial production and master's degree in business administration.

Managing Director – Mr. Daljit Singh

He has been working on the Board of Amber since Jan'08 and was appointed as Managing Director from Aug'17. He has more than 12 years' experience in financial services and 10 years of experience in the RAC manufacturing sector. He holds bachelor's degree in electronic engineering and master's degree in information technology.

Chief Financial Officer – Mr. Sudhir Goyal

He has been associated with the company since Oct'12 and has over 13 years of experience in the manufacturing industry. He holds a bachelor's degree in commerce. He is an associate member of the Institute of Chartered Accountants of India.

Director Operations – Mr. Sanjay Arora

He has been associated with the company since Jul'12 and has more than 34 years of experience in the manufacturing industry. He holds a diploma degree in electrical engineering with specialisation in electronics and television technology.

President RAC Operations – Mr. Udaiveer Singh

He has been associated with the company since Dec'03 and has 22 years of experience in the manufacturing industry. He holds a diploma in mechanical engineering.

VP RAC Operations – Mr. Sachin Gupta

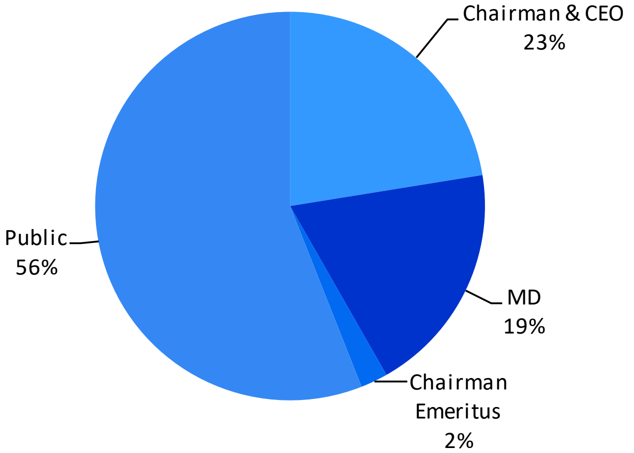
He has been associated with the company since Nov'14 and has more than 14 years of experience in the manufacturing industry. He holds a bachelor's degree in electrical engineering and post graduate diploma degree in business administration.

KMP	Designation	Total salary (in Rs. mn)	Of which commission	Of which performance bonus	Salary from subsidiary (in Rs. mn)	Stake % - Jun'20
Mr. Jasbir Singh*	Chairman & CEO	26.2	38.2%	-	4.0	22.45%
Mr. Daljit Singh*	Managing Director	24.4	41.0%	-	3.0	19.32%
Mr. Kartar Singh	Chairman Emeritus	-	-	-	-	2.25%
Mr. Sudhir Goyal	CFO	6.4	-	24.1%	-	-
Mr. Sanjay Arora	Director - Operations	7.0	-	2.1%	-	-
Mr. Udaiveer Singh	President – RAC Operations	5.9	-	13.9%	-	-
Mr. Sachin Gupta	VP – RAC Operations	6.5	-	24.6%	-	-

**Mr. Jasbir Singh and Mr.Daljit Singh are brothers.*

Shareholding pattern – Jun'20

This is a family owned business with promoters having a 44% stake as on 30th June 2020.



Source: Company, DART

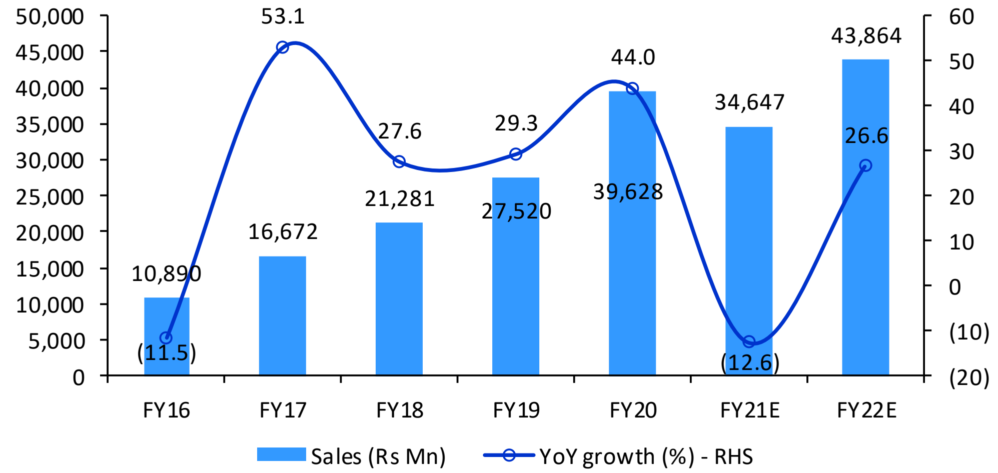
Mr. Kartar Singh, the Chairman Emeritus, has reduced his stake in Amber from 2.25% to 1.29% on 11th September 2020 by selling in the open market.

Ascent Investment Holdings Pte Ltd., which is not the promoter of the company, reduced its stake in Amber from 20.92% to 10.46% on 11th September 2020. However, due to the QIP dilution in the company, the stake now stands at 9.76%.

Financial Analysis

Amber has seen a strong growth over past five years, growing at a CAGR of 29.5%. The pandemic is will impact FY21 with a 12.6% YoY de-growth estimated in FY21 and a growth of 26.6% YoY in FY22. With the RAC industry expected to decline by 20% in FY21, Amber is confident on performing better than the industry with a 15% decline in FY21 and revival of 20% compared to 17% growth of industry in FY22. The non-AC components business is expected to have a higher contribution in sales mix by FY22 contributing to higher export sales and margins overall.

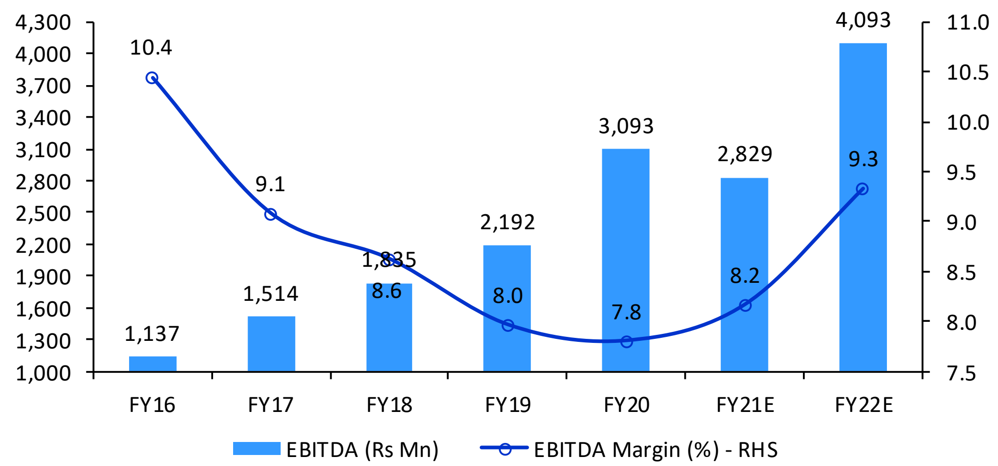
Exhibit 15: Revenue trend



Source: Company, DART

The company has been able to withstand the pandemic impact with its strong focus on R&D and business diversification. We believe that margins will continue to be strong with an estimated FY20-FY22E CAGR of 18.1%; and sustainable in the range of 8% to 10% FY22 onwards. With the acquisition of Sidwal in Q2FY20, the margins are stronger for the non-AC components at ~25% for FY20 and are expected to drive margins higher with an expected ~10% contribution by Sidwal to topline in FY22.

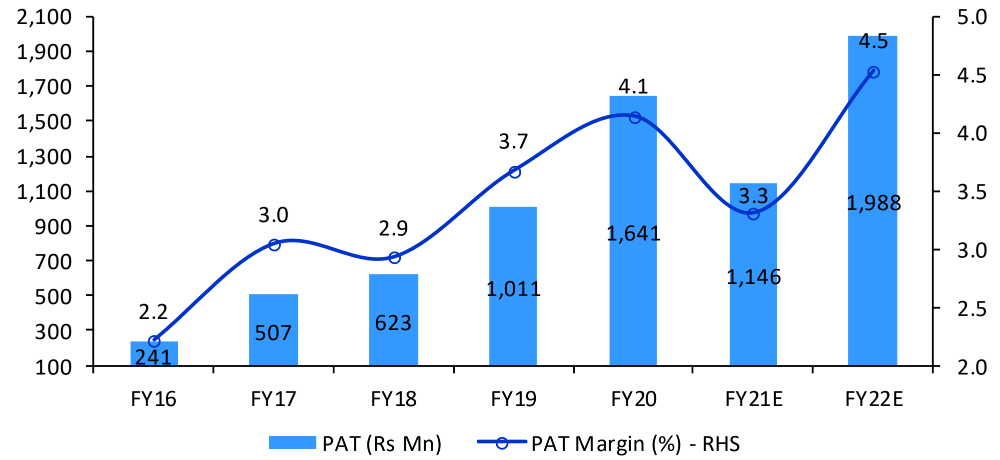
Exhibit 16: EBITDA and EBITDA Margin



Source: Company, DART

With better product mix, higher component margins and backward integration, the PAT for FY22 is expected to bounce back marginally higher than FY20 levels with margins getting back to ~4% levels. Long-term debt is expected to be slashed down to less than half its FY20 levels to Rs.660mn levels. Tax expenses are lower as the company has written off Rs.120mn in Q1FY21 and is expected to write off tax to the same tune in FY22.

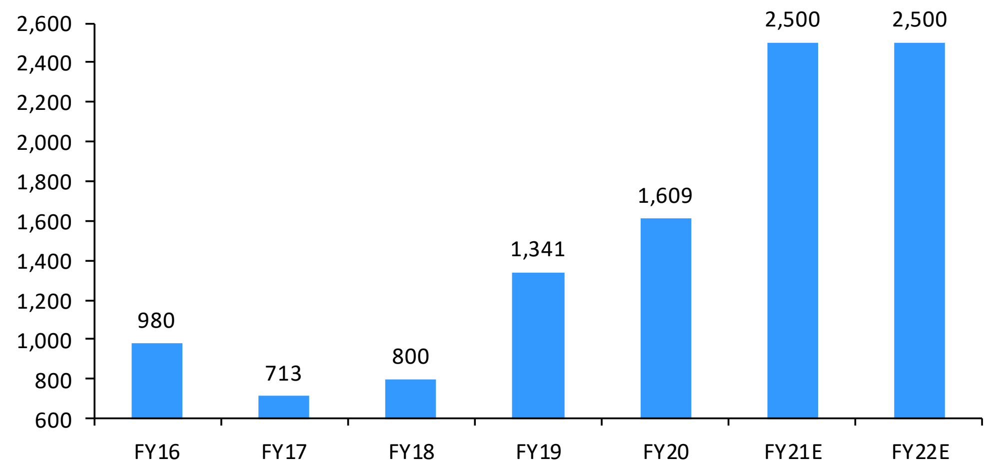
Exhibit 17: PAT and PAT Margins



Source: Company, DART

The Company has aggressive CAPEX plans for FY21 and FY22 with 2 new facilities in the North and West of India being built, it plans to undertake more inorganic expansion. The CAPEX for FY21 and FY22 is expected to be in the range of Rs.2.5bn, and mainly budgeted for annual maintenance and debottlenecking and increasing R&D efforts; Amber envisions to spend Rs.1.5bn for each of the 2 new facilities over FY21 and FY22.

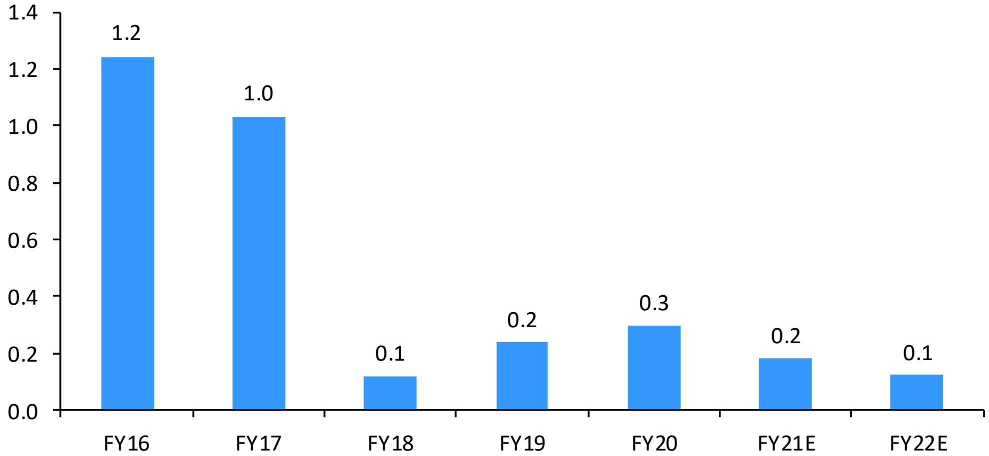
Exhibit 18: CAPEX (Rs. Mn)



Source: Company, DART

The debt is equally split between working capital and long-term financing needs of the company. The company allotted 2.3mn equity shares at a premium of Rs.1770 per share in Q2FY21. We expect debt/equity to decline as the company utilizes cash balance to gradually pay of debt, in line with the objective to become debt-free in the next three years. Long-term debt is expected to be slashed below half levels of FY20 at Rs.660mn in FY22.

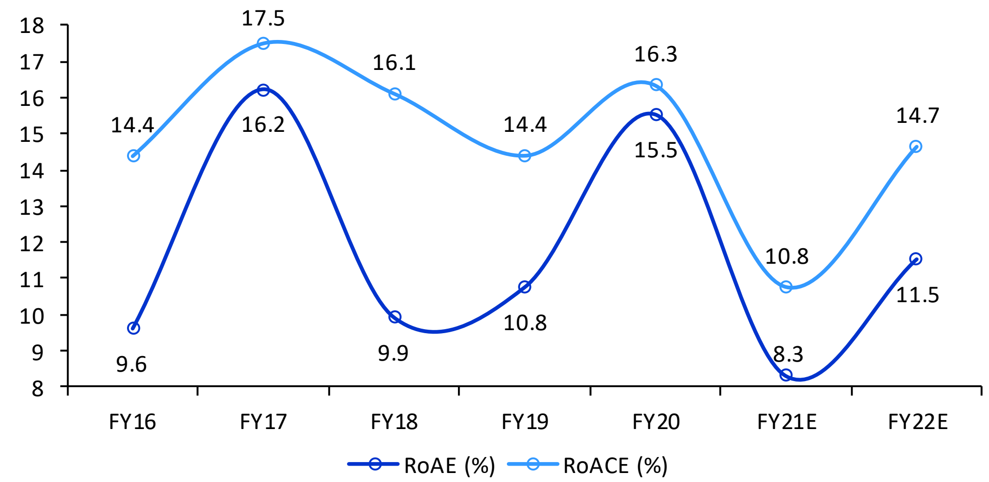
Exhibit 19: Debt/Equity (%)



Source: Company, DART

The company has managed to keep its ROANW (Return on Average Net worth) and ROACE (Return on Average Capital Employed) in the double digits. Though they will remain subdued in FY21 and FY22 due to equity dilution, we expect them to return to normalized levels over the longer term as the non-AC component business, backward integration and capacity utilization levels pick up. Amber aims to pay off debt over a three-year period in the future with ROCE bound to bounce back with added export revenue inflows in the future.

Exhibit 20: RoACE and RoANW



Source: Company, DART

Although FY21 seems as a washout year with respect to all the aforementioned metrics, ROE is expected to bounce back to double digit levels in FY22. With a revival in PAT margins in FY22, a gradual revival towards FY20 Asset Turnover and a stable asset to equity ~1.2; the ROE is expected to reach 10.9%.

Exhibit 21: DuPont Analysis

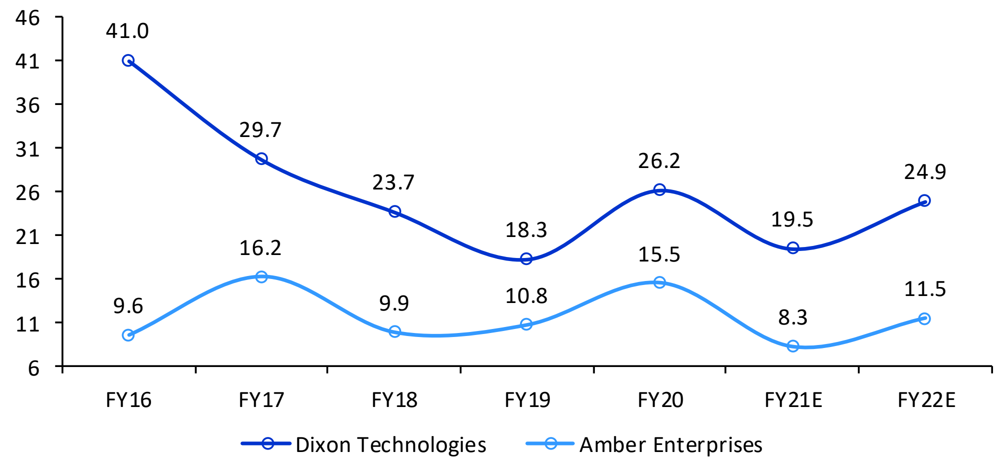
Particulars	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PAT/Sales	2.2	3.0	2.9	3.7	4.1	3.3	4.5
Asset TO	1.8	2.2	2.1	2.1	2.5	1.7	2.1
Asset to Equity	2.4	2.0	1.2	1.3	1.4	1.2	1.2
ROE	9.2	14.0	7.0	10.2	14.5	7.0	10.9

Source: Company, DART

How Amber compares with its peer Dixon

A comparative analysis of Amber with its nearest outsourcing peer, Dixon, shows that Dixon is better on all counts barring EBIDTA margins. This is mainly due to the different nature of the EMS and AC outsourcing businesses. Dixon also operates in a less capex intensive business as compared to Amber, which leads to better asset turns and return ratios. However, we admit that comparing these two names is an apple to orange comparison, but it is the closest peer to compare.

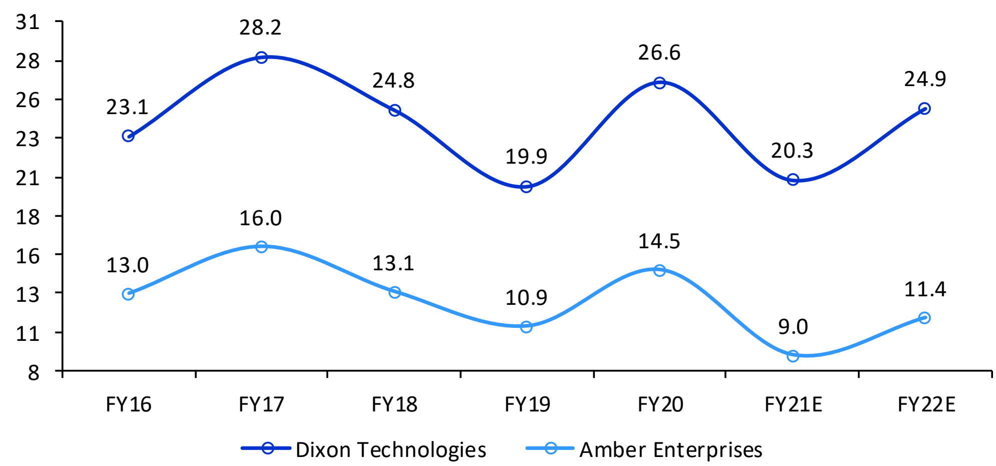
Exhibit 22: RoAE Comparison (%)



Source: Company, DART

Dixon has a better RoE and RoCE as compared to Amber due to better asset turns. Dixon's asset turns are almost 3-4 times that of Amber. Amber also operates in a different industry where there is are peak quarters in Q3/Q4 followed by softer quarters.

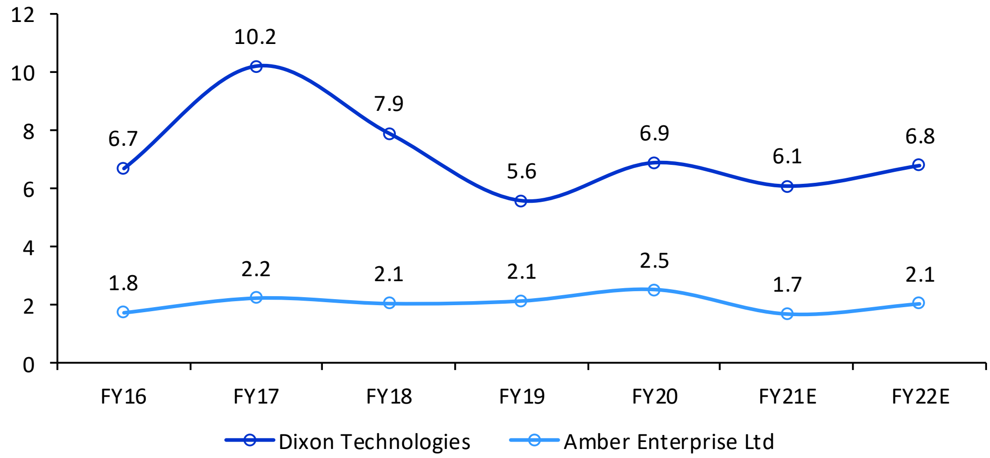
Exhibit 23: RoACE Comparison (%)



Source: Company, DART

While Amber is improving its asset turns slowly, also contributed by relatively non-seasonal businesses like Sidwal, Dixon has a far better asset turn.

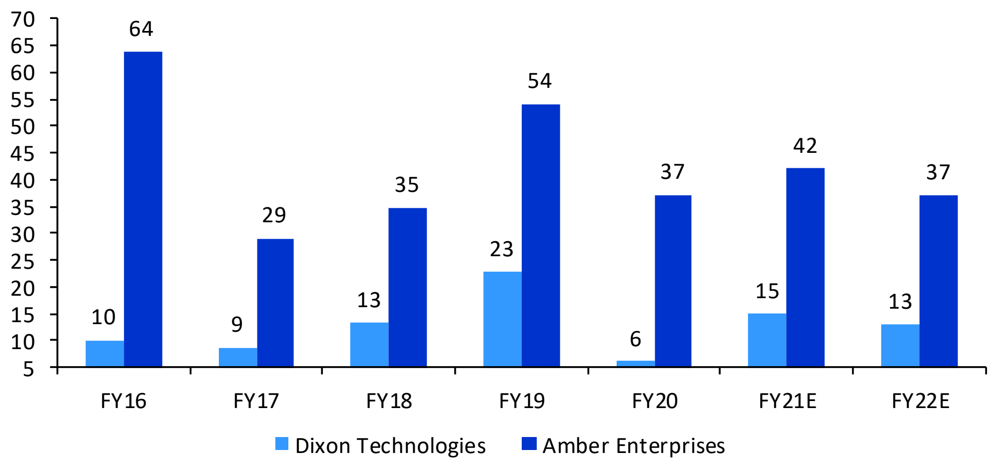
Exhibit 24: Asset T/O Comparison (%)



Source: Company, DART

Amber has a longer receivables average which was affected by lockdown and aimed to be reduced. Cash conversion cycle is expected to reduce gradually with new customers coming in with shorter receivable days, export sales. Amber also suffers from higher inventory and receivables due to the Q4 effect on its balance sheet, given that it is also the peak season for the AC business.

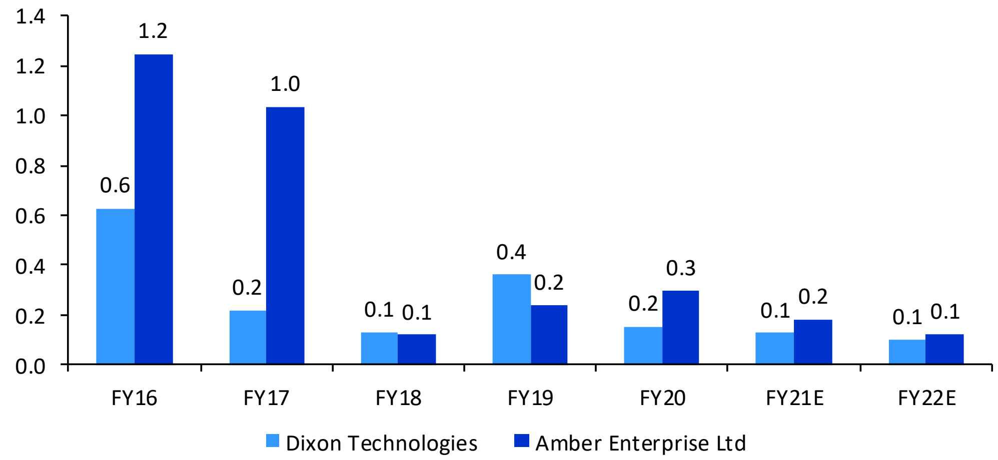
Exhibit 25: Cash Conversion Cycle (%)



Source: Company, DART

Debt/Equity profile for both Dixon and Amber are similar; both have the common objective to gradually pay off debt. Amber issued equity worth Rs.22.7mn through QIP in Q1FY21 hence widening equity base which compounds the effect of slashing reducing long-term debt to reduce debt/equity ratio for FY21 and FY22.

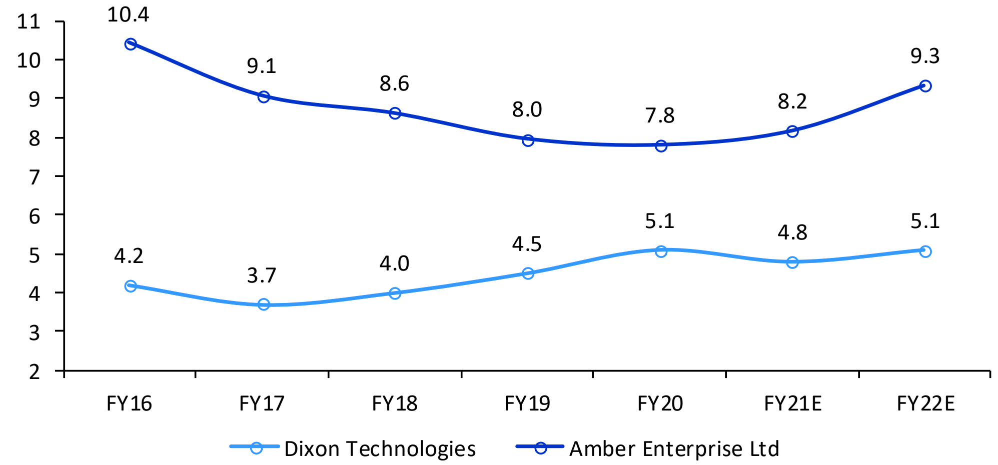
Exhibit 26: Debt/Equity Comparison (%)



Source: Company, DART

Amber has better EBIDTA than Dixon due to the different nature of the products they make. EMS being more competitive and volume driven as compared to ACs sees a lower margin as compared to RAC outsourcing. The other reason RAC industry also gets a higher margin is due to relative capex intensity where they need to cover their depreciation costs.

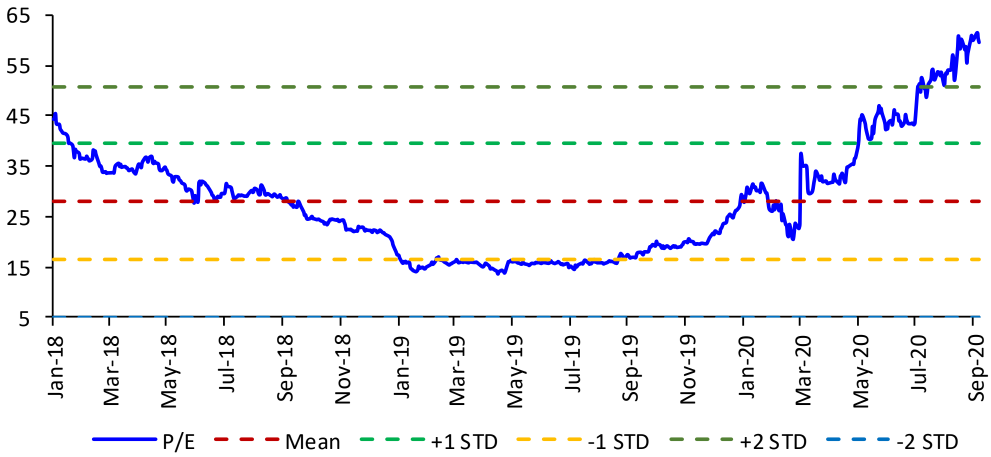
Exhibit 27: EBITDA Margin Comparison (%)



Source: Company, DART

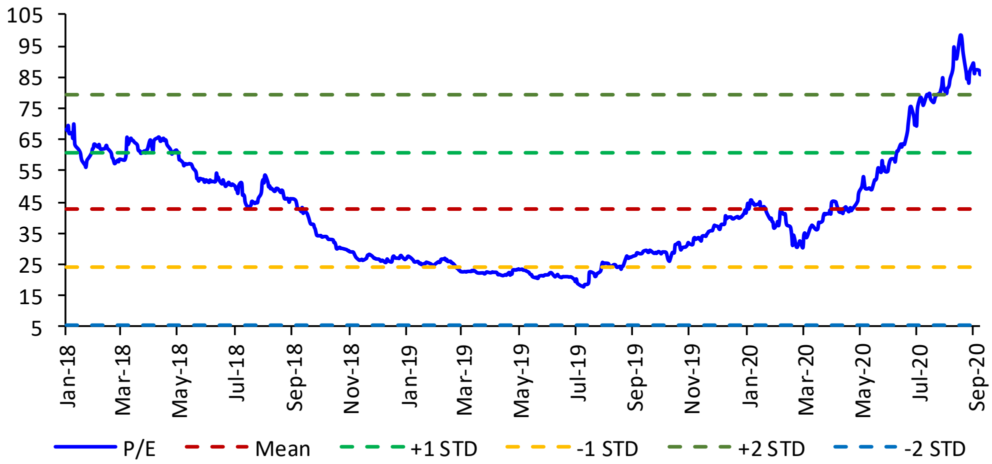
Amber has issued equity worth Rs.22.3mn in Q1FY21 through a QIP which is expected to grow revenues through incremental capex on innovation and expansion. P/E is expected to stabilize gradually for Amber with better profits coming in due to high growth, better diversification and improved sales mix. Note, our numbers on Dixon are base numbers and don't include the impact of PLI, which Dixon may possibly win.

Exhibit 28: Amber Enterprises 1-yr Forward P/E Band



Source: Company, DART

Exhibit 29: Dixon Technologies 1-yr Forward P/E Band



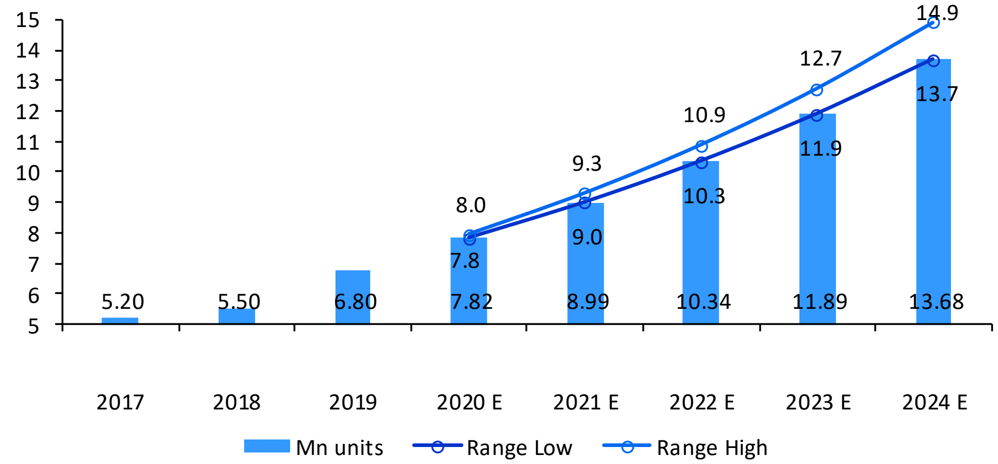
Source: Company, DART

Industry overview

The RAC (Room Air Conditioner) market was estimated to be at 6.8 mn units in 2019, with a growth of 23.6% YoY and a CAGR of 9.3% over last 10 years.

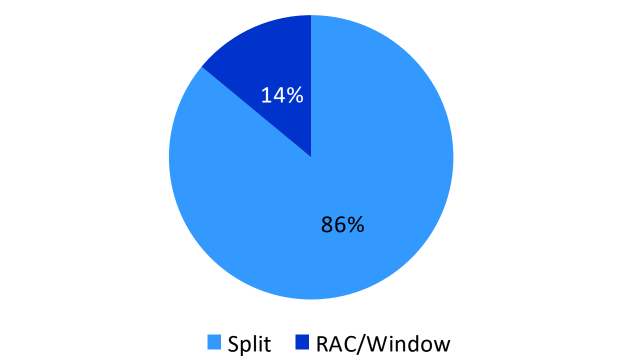
Amber expects the RAC industry to grow at a CAGR of 15%-17% over the next 5 years.

Exhibit 30: India AC Market



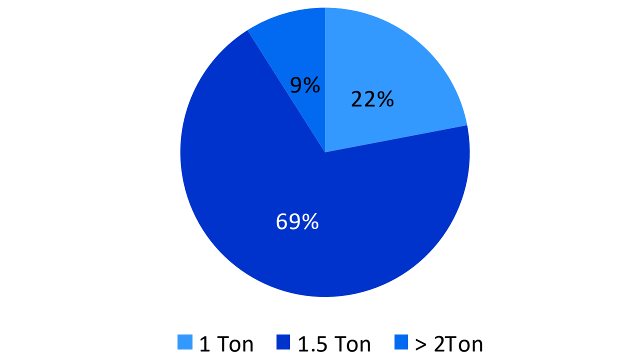
Source: Company, DART

Exhibit 31: AC Type Split -2019



Source: Company, DART

Exhibit 32: AC Capacity Split - 2019

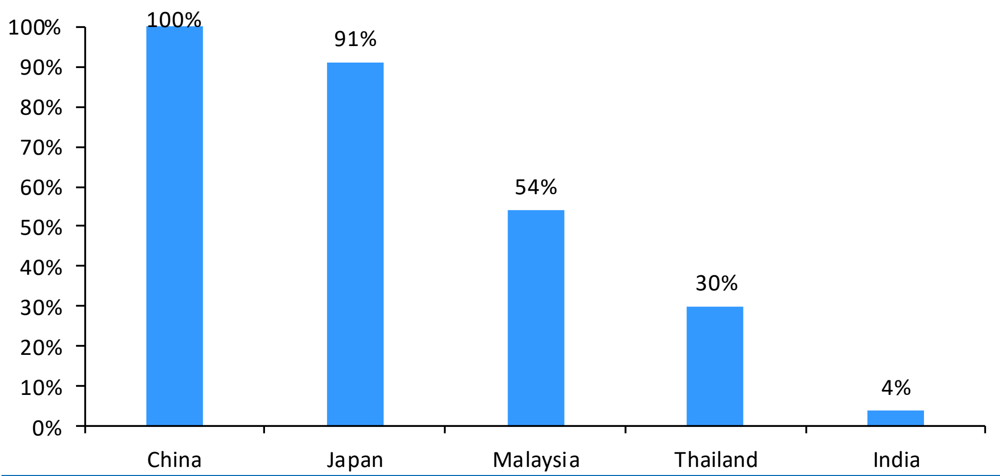


Source: Company, DART

Low penetration levels

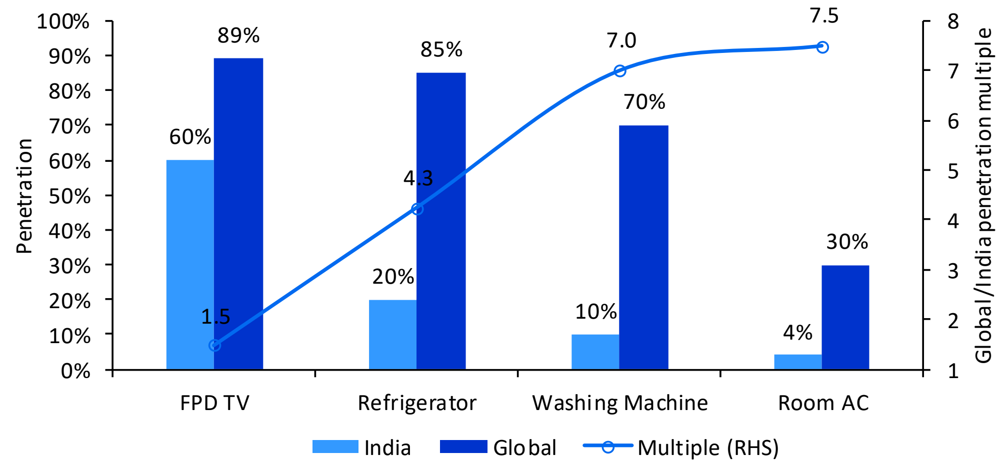
The AC penetration levels in India is lower as compared to other countries as well as other consumer durables categories.

Exhibit 33: Penetration of AC in different countries in FY18



Source: Frost & Sullivan

Exhibit 34: Penetration of AC vs other consumer durables products in FY18



Source: Frost & Sullivan

Increasing electrification and modernization in rural areas

The Government's push to increase electrification in rural areas augurs well for the RAC industry over the medium to long term. Rising per capita GDP, household savings and penetration of consumer financing to Tier 2 and Tier 3 cities, creates the potential for a market for a high-ticket item like an AC.

Role of consumer financing and increased warranty period

According to a millennial borrowing habit report by fintech firm CASHe, 26% people mentioned white goods purchases as key reason for borrowing. Nearly 1/4 of the RAC sales for Voltas and more than 1/3 of the RAC sales for Blue Star came through consumer financing as of September 2019.

We see from the Voltas FY20 annual report that the AC market leader had offered its customers attractive offers such as five-year comprehensive warranty, life-time inverter compressor warranty, consumer financing schemes and cash-back offers.

The lower upfront payment option coupled with attractive warranty offers open up market for more first-time buyers as well as influence the shortening of the replacement cycle.

Components Industry

The following exhibit gives us an idea of a value wise break up of major components of an inverter AC (the most sold type of AC in the industry):

RAC Component (Major components)	Content value in RAC (Inverter AC)	Import/Local options
Compressor	20-25%	Largely imported
PCB (Printed Circuit Board)	20%	Largely imported and locally assembled
Heat Exchanger	10-11%	Local options available
Injection Mould	7-8%	Local options available
Sheet Metal	7-8%	Local options available
Motors	7%	Largely imported
Copper Tubing	5%	Local options available

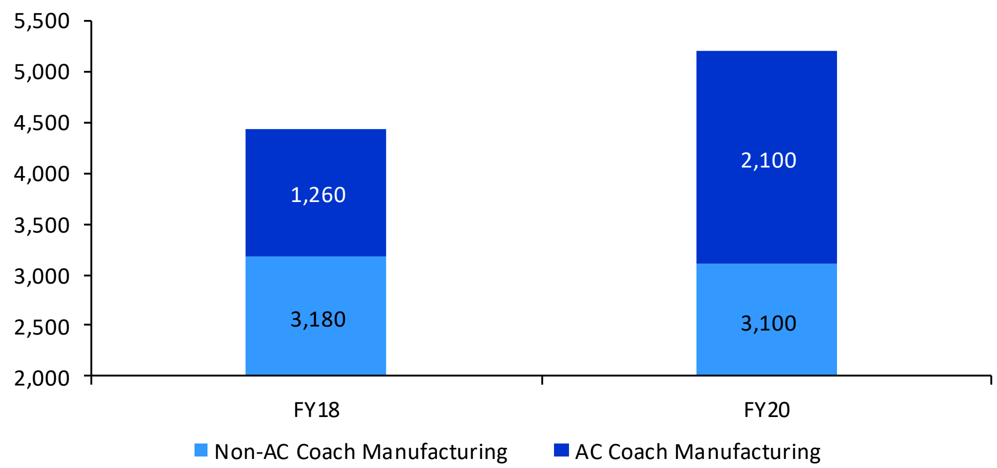
Source: Company, DART

Mobile Application Industry

Increasing mix of AC Coaches manufacturing in the industry

With technology bringing down the costs of AC coaches manufacturing, Indian railways is shifting towards an increased mix of AC coaches in coaches manufacturing from 28.4% in FY18 to 33.9% in FY20. This increased market size of AC coaches presents Sidwal with greater growth prospects.

Exhibit 35: Sidwal's business mix



Source: Company, DART

Competition and Peers

RAC Business

Amber is the market leader in RAC manufacturing with ~22% share and in RAC contract manufacturing with ~55% share. The rest of the AC contract manufacturing industry is very fragmented with players like Edurables and Zamil leading the pack.

Mobile Applications Business - Sidwal

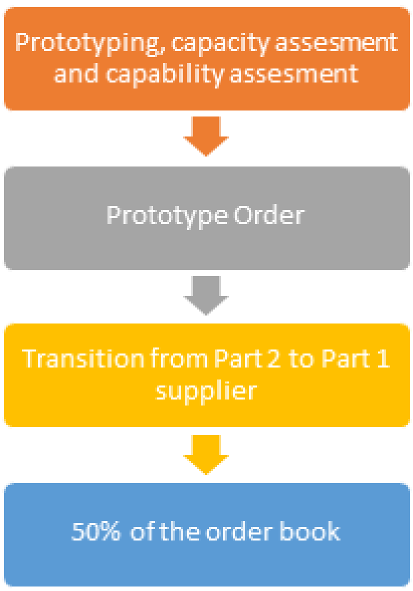
Sidwal is the market leader in the Indian railways segment with 51% share. The competitors in different segments are as mentioned below:

Indian Railways	Metro	Bus
• Amit Engineering • Daulat Ram • Leel	• Toshiba • Hitachi	• Carrier • Thermo King

Source: Company, DART

Railways tender process – High entry barrier

Sidwal is a veteran of the industry and has on its side the advantage of high entry barriers that new players have to traverse through to get business. As per the company, the following is a sample process of getting orders from the Indian Railways for the AC landscape.



Source: Company, DART

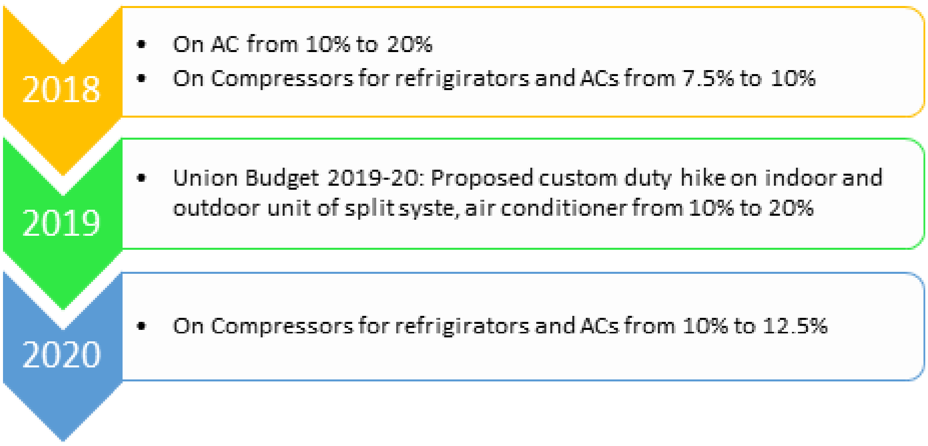
Increasing Cost of Imports for AC players

As of available data of FY19, ~30% of finished RAC is still being imported in India, valued at Rs.42-45 bn. A similar value of RAC components are also being imported in India.

The increasing cost of imports creates opportunities for Indian RAC contract manufacturers and component manufacturers and helps them in achieving economies of scale.

Increasing custom duties

This is a popular lever used by India to discourage imports and encourage domestic manufacturing. However, the increasing duties are being implemented in a phased manner so as to push domestic manufacturing instead of creating supply issues leading to increased prices to the Indian consumer.

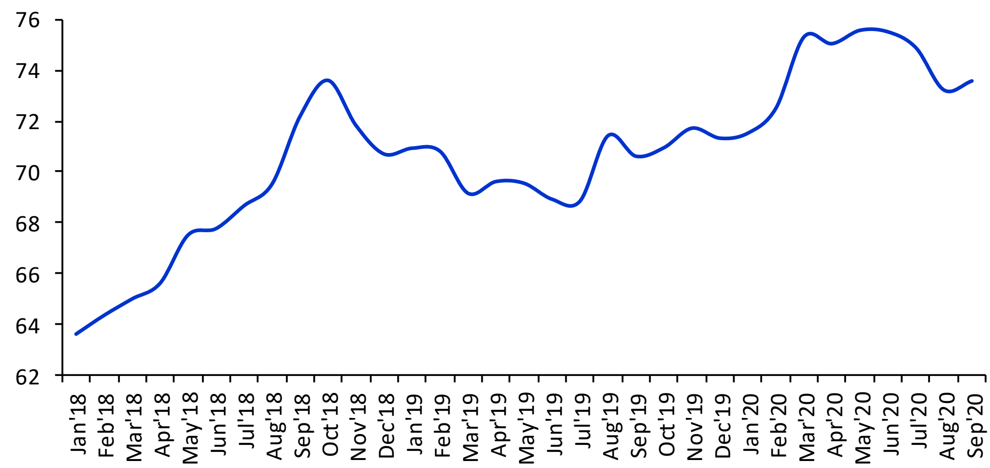


Source: Indian Government

Currency

Currency also plays an important role in the import cost of ACs and AC components. As the USD strengthens, imports costs are expected to go up for RAC makers.

Exhibit 36: USD to INR rate



Source: RBI, investing.com

Supply Chain Disruption

The pandemic hit world with a disrupted global supply chain, has increased the risk of supply unavailability and price escalation due to supply demand mismatch. This has made domestic companies wanting to diversify into local sources for their component needs. Such changes are usually not temporary but more of a trend setting and permanent kind. In the highly competitive space of RACs, a company simply cannot afford to lose share due to shortage of components due to a disrupted supply chain. This can bid up the price of imported components.

Risks for Amber

Customer's propensity to outsource

A lot of RAC business for Amber depends on the customer's decision to outsource to a third party. A customer who may reduce outsourcing presents a potential business risk to Amber.

Business seasonality

The function of the main product of the company, which is RAC, is to provide relief and comfort to the consumer during unpleasantly warm weather. India's winter season and monsoon season is a dull period for AC demand. With the demand getting concentrated towards the summer season, the company's manufacturing units have lower utilization levels during the rest of the year. Increasing exports especially during the off season and diversifying products are some strategic ways to mitigate the seasonality risk.

Volatility of supply chain

The company imports some components and critical raw materials and the unavailability of supply is a risk for the company.

Competition from low cost solutions

The company faces a risk from lower cost solutions to RAC, like advanced technology fans proving better cooling and air coolers that also come with the advantage of portability.

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	**27,520**	**39,628**	**34,647**	**43,864**
Total Expense	**25,328**	**36,535**	**31,818**	**39,771**
COGS	23,132	33,017	28,930	36,187
Employees Cost	588	1,063	935	1,184
Other expenses	1,609	2,455	1,952	2,399
EBIDTA	**2,192**	**3,093**	**2,829**	**4,093**
Depreciation	623	848	993	1,135
EBIT	**1,569**	**2,245**	**1,836**	**2,957**
Interest	246	419	471	385
Other Income	99	82	101	97
Exc. / E.O. items	0	0	0	0
EBT	**1,422**	**1,907**	**1,466**	**2,669**
Tax	412	266	320	681
RPAT	1,011	1,641	1,146	1,988
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**1,011**	**1,641**	**1,146**	**1,988**

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	314	314	337	337
Minority Interest	190	348	348	348
Reserves & Surplus	9,547	10,970	15,972	17,839
Net Worth	**9,861**	**11,284**	**16,309**	**18,176**
Total Debt	2,328	3,334	2,945	2,193
Net Deferred Tax Liability	438	678	678	678
Total Capital Employed	**12,817**	**15,645**	**20,280**	**21,395**
Applications of Funds				
Net Block	**8,342**	**11,144**	**12,651**	**14,016**
CWIP	89	32	0	0
Investments	0	0	0	0
Current Assets, Loans & Advances	**15,276**	**17,833**	**18,849**	**21,579**
Inventories	5,606	6,557	5,885	7,451
Receivables	7,872	8,542	7,119	8,412
Cash and Bank Balances	447	1,203	4,389	3,874
Loans and Advances	247	293	277	351
Other Current Assets	1,104	1,238	1,178	1,491
Less: Current Liabilities & Provisions	**10,890**	**13,364**	**11,220**	**14,199**
Payables	9,407	11,068	9,018	11,417
Other Current Liabilities	1,483	2,297	2,202	2,783
sub total				
Net Current Assets	4,386	4,469	7,629	7,379
Total Assets	**12,817**	**15,645**	**20,280**	**21,395**

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	15.9	16.7	16.5	17.5
EBIDTA Margin	8.0	7.8	8.2	9.3
EBIT Margin	5.7	5.7	5.3	6.7
Tax rate	28.9	13.9	21.8	25.5
Net Profit Margin	3.7	4.1	3.3	4.5
(B) As Percentage of Net Sales (%)				
COGS	84.1	83.3	83.5	82.5
Employee	2.1	2.7	2.7	2.7
Other	5.8	6.2	5.6	5.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.3	0.2	0.1
Interest Coverage	6.4	5.4	3.9	7.7
Inventory days	74	60	62	62
Debtors days	104	79	75	70
Average Cost of Debt	14.5	14.8	15.0	15.0
Payable days	125	102	95	95
Working Capital days	58	41	80	61
FA T/O	3.3	3.6	2.7	3.1
(D) Measures of Investment				
AEPS (Rs)	30.0	48.7	34.0	59.0
CEPS (Rs)	48.5	73.9	63.5	92.7
DPS (Rs)	0.0	3.2	2.1	3.6
Dividend Payout (%)	0.0	6.6	6.1	6.1
BVPS (Rs)	313.6	358.8	484.0	539.5
RoANW (%)	10.8	15.5	8.3	11.5
RoACE (%)	10.9	14.5	9.0	11.4
RoAIC (%)	14.7	16.7	12.1	17.7
(E) Valuation Ratios				
CMP (Rs)	1952	1952	1952	1952
P/E	65.1	40.1	57.4	33.1
Mcap (Rs Mn)	65,770	65,770	65,770	65,770
MCap/ Sales	2.4	1.7	1.9	1.5
EV	67,651	67,901	64,326	64,089
EV/Sales	2.5	1.7	1.9	1.5
EV/EBITDA	30.9	22.0	22.7	15.7
P/BV	6.2	5.4	4.0	3.6
Dividend Yield (%)	0.0	0.2	0.1	0.2
(F) Growth Rate (%)				
Revenue	29.3	44.0	(12.6)	26.6
EBITDA	19.4	41.1	(8.5)	44.7
EBIT	16.6	43.1	(18.2)	61.1
PBT	59.1	34.1	(23.2)	82.1
APAT	62.2	62.4	(30.2)	73.5
EPS	62.2	62.4	(30.2)	73.5

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	(319)	3,862	6,585	3,244
CFI	(1,600)	(3,592)	(2,468)	(2,500)
CFF	1,027	486	(931)	(1,259)
FCFF	(1,976)	270	4,117	744
Opening Cash	1,338	447	1,203	4,389
Closing Cash	447	1,203	4,389	3,874

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

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