

Import ban to boost domestic AC manufacturing...

In consonance with our view of contract manufacturers being the biggest beneficiaries under the government's flagship "Atmanirbhar Scheme", the recent ban on import of finished room AC (RAC) is likely to create multifold business opportunities for Amber Enterprises. Currently, India imports ~ 1.6 mn units (~₹ 3500 crore) of finished RAC that is ~22% of total volume sold in India in FY20. We believe Amber being a market leader in the original equipment manufacturer, original design manufacturer (OEM, ODM) industry with volume market share of ~70%, is likely to get significant business opportunities from Q4FY21 onwards (considering the immediate restriction on imports). Further, to maintain liquidity (amid pandemic) and fund its capex requirements (for its two upcoming plants in west, south India), the company has also raised ₹ 400 crore through QIP. Considering significant business opportunities for both its business segment i.e. RAC and component and mobile application, we revise our revenue, earning estimates upward by 13% and 19%, respectively, for FY22E.

Revenue boost under Atmanirbhar scheme...

Amber reported strong revenue, earnings CAGR of ~36%, 62% in FY18-20 supported by strong ~26% RAC volume CAGR during the same period. We believe refilling of inventory in the channel amid festive season and addition of new clients (due to ban on import of RAC) would help drive revenues for Amber, going forward. We build-in ~24% revenue CAGR for Amber during FY19-23E led by the RAC division, which is likely to grow at a CAGR of 24%. Further, component and mobility business (~39% of total revenue) is likely to grow at a CAGR of 16% in FY19-23E. The segment will get a boost from the government's push to increase number of AC coaches in trains. The market size for air conditioning in train coaches, metro coaches and buses is pegged at ₹ 900 crore and likely to grow at CAGR of ~20% in FY20-25E.

Improving mix, better operating leverage to drive margin

The component and mobility business commands higher margin than the company's overall margins. For example, Sidwal (the mobility business subsidiary of Amber) operates at EBITDA margin of ~28% compared to Amber's overall EBITDA margin of 7.8%. We believe increasing mix of components and mobility business in the topline would help drive EBITDA margins up by 80 bps in FY19-23.

Valuation & Outlook

We believe China+1 strategy by key clients coupled with market leadership position in domestic RAC OEM/ODM industry creates a significant growth opportunity for Amber, going forward. We introduce FY23E estimates and model revenue, earning CAGR of 24%, 23%, respectively, in FY19-23 supported by ~80 bps increase EBITDA margin. We reiterate **BUY** on the stock with a revised target price of ~₹ 2600 (valuing 37x FY22E earnings).

Key Financial Summary

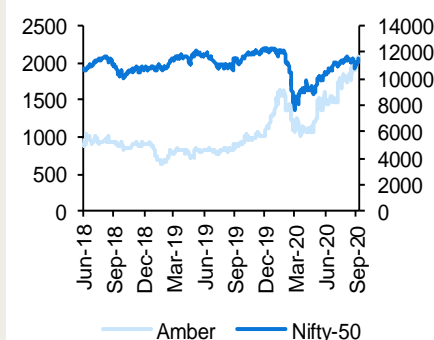
₹Crore	FY19	FY20E	FY21E	FY22E	FY23E	(CAGR 19-23E)
Net sales	2752.0	3962.8	3306.8	5525.8	6512.1	24.0
EBITDA	212.9	309.3	211.6	458.6	560.0	27.4
EBITDA Margin(%)	7.7	7.8	6.4	8.3	8.6	
Net Profit	94.8	164.1	63.9	237.7	300.5	33.4
EPS (₹)	30.1	52.2	19.0	70.6	89.2	
P/E(x)	72.3	41.8	115.0	30.9	24.4	
RoE (%)	9.6	14.5	4.2	13.7	14.8	
RoCE (%)	12.3	14.3	6.3	16.2	17.7	

Source: Company, ICICI Direct Research



Particulars	Amount
Market Cap (₹Crore)	6,855.3
Total Debt (FY 20) (₹Crore)	320.5
Cash & Inv (FY 20) (₹Crore)	120.3
EV (₹Crore)	7,055.5
52 week H/L	2300/ 905
Equity capital (₹Crore)	31.4
Face value (₹)	10.0

Historical price performance



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Exhibit 1: Change in estimates

(₹ crore)	FY21E			FY22E			Introduced	Comments
	Old	New	% Chg	Old	New	% Chg	FY23E	
Revenue	3,306.8	3,306.8	0.0	4,902.6	5,525.8	12.7	6,512.1	We tweak our revenue estimate upwards for FY22E considering increased volume for company due to import ban of finished RAC. We also introduce FY23E estimates with topline growth of 18% YoY
EBITDA	211.6	211.6	-	431.4	458.6	6.3	560.0	
EBITDA Margin (%)	6.4	6.4	0bps	8.8	8.3	-50bps	8.6	We believe EBITDA margin will pick up gradually with change in product mix (towards component and project business) and improved operating leverage
PAT	57.8	63.9	10.5	200.2	237.7	18.7	300.5	
EPS (₹)*	18.4	19.0	3.0	63.7	70.6	10.8	89.2	

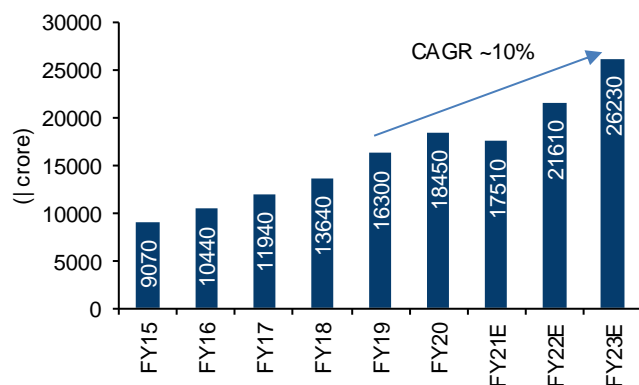
Source: Company, ICICI Direct Research, *includes fresh equity shares issued through QIP

Exhibit 2: Assumptions

(%)	Current			Introduced	Earlier		Comments
	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
RAC	39.9	(20.8)	82.5	16.6	(20.8)	50.1	We believe incremental business opportunity due to import ban on RAC would help drive RAC revenue at CAGR of 24% FY19-23E
Component & Mobile Applications	51.0	(9.9)	45.7	20.0	(9.9)	45.7	Business remaining intact for Sidwal, coupled with increased wallet share from existing customers would help drive revenue at CAGR of 16% for component and mobile application business

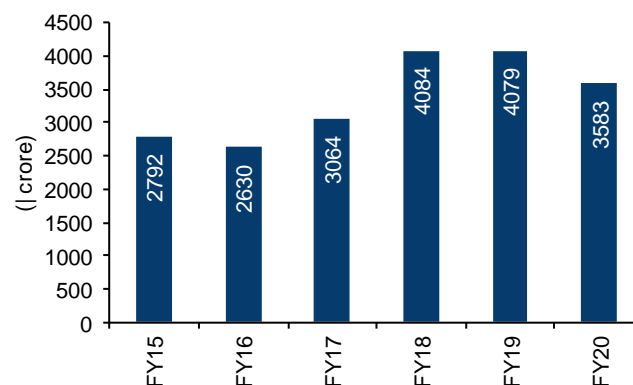
Source: Company, ICICI Direct Research

Exhibit 3: Domestic room AC growth trend



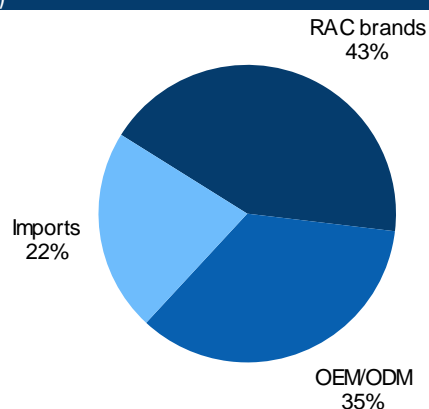
Source: Company, ICICI Direct Research

Exhibit 4: India imports of finished RAC



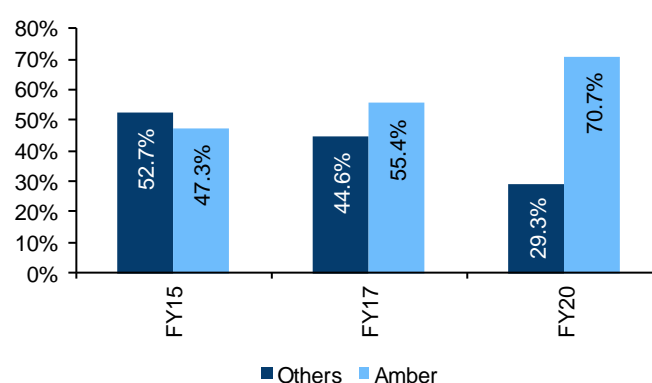
Source: DGFT, ICICI Direct Research

Exhibit 5: RAC manufacturing vs. outsourcing mix (by volume)



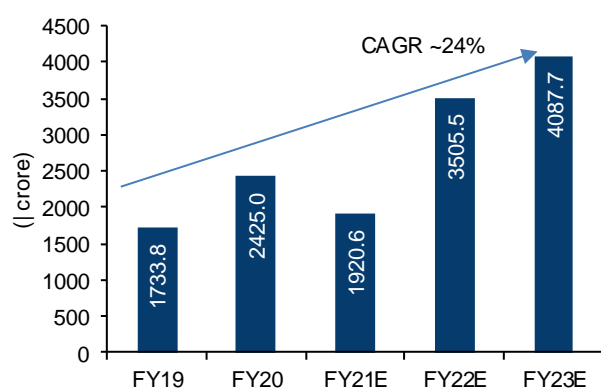
Source: Company, ICICI Direct Research

Exhibit 6: Volume market share in OEM/ODM industry



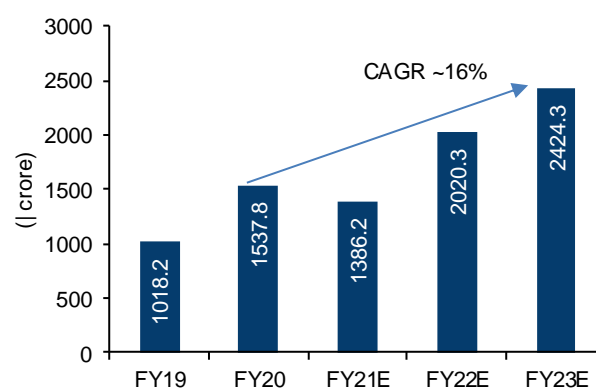
Source: Company, ICICI Direct Research

Exhibit 7: Amber's RAC division growth trend



Source: Company, ICICI Direct Research

Exhibit 8: Component & mobility division growth trend



Source: Company, ICICI Direct Research

Financial summary

Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Revenue	3,962.8	3,306.8	5,525.8	6,512.1	
Growth (%)	44.0	-16.6	67.1	17.8	
Expenses					
Raw material expe	3,324.7	2,777.7	4,614.0	5,405.0	
Employee expense	106.3	102.5	132.6	156.3	
Other expenses	245.5	214.9	320.5	390.7	
Total Operating Ex	3,653.5	3,095.2	5,067.1	5,952.0	
EBITDA	309.3	211.6	458.6	560.0	
Growth (%)	45.3	-31.6	116.7	22.1	
Depreciation	84.8	94.2	121.6	149.8	
Interest	41.9	34.6	28.1	22.6	
Other Income	8.2	6.6	11.1	13.0	
PBT	190.7	89.4	320.0	400.7	
Total Tax	26.6	25.5	82.3	100.2	
PAT	164.1	63.9	237.7	300.5	
Growth (%)	73.2	-61.1	272.2	26.4	
EPS (₹)	52.2	19.0	70.6	89.2	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	164.1	63.9	237.7	300.5	
Add: Depreciation	84.8	94.2	121.6	149.8	
(Inc)/dec in Current Assets	-176.3	-282.8	-675.3	-461.3	
Inc/(dec) in CL and Provisions	211.5	-45.7	595.8	325.9	
Others	41.9	34.6	28.1	22.6	
CF from operating activities	326.1	-135.8	307.9	337.6	
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-303.9	-100.0	-210.0	-270.0	
Others	27.4	0.2	-1.4	-0.6	
CF from investing activities	-276.5	-99.8	-211.4	-270.6	
Issue/(Buy back) of Equity	0.0	2.2	0.0	0.0	
Inc/(dec) in loan funds	89.8	-40.0	-50.0	-50.0	
Dividend paid & dividend tax	-12.1	-4.0	-8.1	-8.1	
Others	-51.7	279.8	-28.1	-22.6	
CF from financing activities	26.0	238.0	-86.2	-80.7	
Net Cash flow	75.6	2.4	10.3	-13.8	
Opening Cash	44.7	120.3	122.7	133.0	
Closing Cash	120.3	122.7	133.0	119.2	

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Liabilities					
Equity Capital	31.4	33.7	33.7	33.7	
Reserve and Surplus	1,097.0	1,471.2	1,700.9	1,993.3	
Total Shareholders func	1,128.4	1,504.9	1,734.5	2,027.0	
Total Debt	320.5	280.5	230.5	180.5	
Other non current liabilit	178.0	178.0	178.0	178.0	
Total Liabilities	1,626.9	1,963.4	2,143.0	2,385.5	
Assets					
Gross Block	1,357.2	1,457.2	1,667.2	1,937.2	
Less: Acc Depreciation	365.0	459.3	580.9	730.6	
Total Fixed Assets	995.3	1,001.1	1,089.5	1,209.7	
Goodwill	122.3	122.3	122.3	122.3	
Inventory	655.7	724.8	1,059.7	1,248.9	
Debtors	854.2	1,087.2	1,362.5	1,605.7	
Loans and Advances	29.3	24.5	40.9	48.2	
Other CA	86.8	72.4	121.1	142.7	
Cash	120.3	122.7	133.0	119.2	
Total Current Assets	1,746.3	2,031.6	2,717.2	3,164.7	
Creditors	1,106.8	1,087.2	1,589.6	1,873.3	
Provisions	12.8	12.5	18.3	21.6	
Other CL	156.4	130.5	218.1	257.0	
Total Current Liabilities	1,275.9	1,230.2	1,826.0	2,151.9	
Net current assets	470.4	801.4	891.2	1,012.7	
Other non current asse	38.9	38.7	40.1	40.8	
Total Assets	1,626.9	1,963.4	2,143.1	2,385.5	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per share data (₹)					
EPS	52.2	19.0	70.6	89.2	
Cash EPS	79.2	46.9	106.6	133.6	
BV	358.8	446.6	514.8	601.6	
DPS	3.8	1.2	2.4	2.4	
Operating Ratios (%)					
EBITDA Margin	7.8	6.4	8.3	8.6	
PAT Margin	4.1	1.9	4.3	4.6	
Asset Turnover	2.9	2.3	3.3	3.4	
Inventory Days	60.4	80.0	70.0	70.0	
Debtor Days	78.7	120.0	90.0	90.0	
Creditor Days	101.9	120.0	105.0	105.0	
Return Ratios (%)					
RoE	14.5	4.2	13.7	14.8	
RoCE	14.3	6.3	16.2	17.7	
RoIC	15.0	6.5	16.3	17.4	
Valuation Ratios (x)					
P/E	41.8	115.0	30.9	24.4	
EV / EBITDA	22.8	33.1	15.2	12.4	
EV / Net Sales	1.8	2.1	1.3	1.1	
Market Cap / Sales	1.7	2.1	1.2	1.1	
Price to Book Value	6.1	4.9	4.2	3.6	
Solvency Ratios					
Debt / Equity	0.3	0.2	0.1	0.1	
Current Ratio	1.5	1.7	1.6	1.6	
Quick Ratio	0.9	1.1	0.9	0.9	

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		(₹Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E
Asian Paints (ASIPAI)	2,181	1,900	Hold	2,09,158	29.0	21.8	32.6	75.3	100.2	66.8	38.9	45.6	32.9	27.4	19.4	26.9	30.5	22.6	31.0
Astral Polytechnik (ASTP)	1,148	1,120	Hold	17,296	16.6	15.0	23.3	69.3	76.8	49.3	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AM2)	180	2,600	Buy	6,855	52.2	19.0	70.6	41.8	115.0	30.9	22.8	33.1	15.2	14.3	6.3	16.2	14.5	4.2	13.7
Bajaj Electricals (BAJEL)	513	495	Buy	5,832	0.0	4.1	14.8	NM	125.3	34.8	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2
Berger Paints (BERPAI)	603	580	Hold	58,563	6.8	6.1	9.7	89.3	98.4	61.9	51.7	55.0	37.8	26.6	22.0	31.3	24.7	19.7	27.1
Essel Propack (ESSPRC)	251	270	Buy	7,919	6.7	7.0	9.5	37.4	35.7	26.5	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	697	630	Hold	43,486	11.7	8.0	14.4	59.3	86.9	48.4	33.9	40.7	25.5	19.6	14.3	22.6	17.0	11.4	18.3
Kansai Nerolac (KANNE)	501	510	Buy	27,000	9.9	7.9	11.8	50.4	63.1	42.4	30.3	35.3	24.2	17.6	14.7	19.9	14.1	11.3	15.3
Pidilite Industries (PIDINI)	1,481	1,595	Buy	75,205	22.1	17.8	28.0	67.0	83.0	53.0	43.5	53.3	35.1	31.0	23.4	34.0	26.1	19.2	27.7
Polycab India (POLI)	807	950	Buy	12,015	51.4	42.2	55.4	15.7	19.1	14.6	10.7	13.4	9.8	26.5	16.8	22.2	20.0	13.9	17.0
Supreme Indus (SUPINC)	1,408	1,650	Buy	17,885	36.8	31.1	47.1	38.3	45.2	29.9	21.8	23.5	17.3	22.5	18.9	25.0	20.7	16.5	21.9
Symphony (SYMLIM)	838	960	Buy	5,862	26.0	20.5	32.0	32.2	40.8	26.2	26.7	33.9	21.0	28.8	23.5	37.0	29.0	23.0	35.1
Time Techno (TIMTEC)	38	47	Hold	859	7.5	3.4	9.4	5.1	11.2	4.1	3.3	4.5	3.0	12.5	7.4	13.5	9.3	4.3	11.0
V-Guard Ind (VGUARD)	167	210	Buy	7,152	4.3	3.6	5.2	38.6	46.5	32.1	27.4	32.5	22.6	24.8	19.7	24.3	18.6	14.8	18.5
Voltas Ltd (VOLTAS)	700	725	Buy	23,151	15.8	10.7	22.7	44.4	65.5	30.8	29.4	51.3	23.6	19.5	11.5	20.4	13.0	8.0	15.6

Source: Company, ICICI Direct Research

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Sell: <-15%



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