

## Recovery on track...

In Q2FY21, Amber Enterprises reached ~65% of pre-Covid level revenue on a YoY basis. The delay in recovery is attributable to lower volume offtake by its key clients, as their major focus remained on inventory liquidation at dealer level. However, according to the management, pent up demand post ease in lockdown restriction would help bring inventory at normal levels in Q2FY21. Inventory at the channel level was at ~6 lakh units in Q2FY21 vs ~10 lakh & 25 lakh units in Q1FY21 & Q4FY20, respectively. We believe normalised inventory would result in accelerated recovery in Q3FY21 and a strong season in Q4FY21 for Amber. Under the component & mobility business, we believe component business recovery was faster at 90% YoY, leading component and mobility business reaching at 84% of pre-Covid level YoY. According to management, Amber has added four new clients during Q2FY21 and is in discussion with another four clients for supply of RACs and components post government ban on import of RACs. We believe Amber is more of a long term play on major business opportunities for contract manufacturers due to ban on import of RACs and increase local sourcing of components. We tweak our revenue, earnings estimate for FY21 considering current quarter performance and model revenue, earning CAGR of 19%, 23% for FY20-23E led by improvement in EBITDA margin.

## Faster recovery in component, mobility business

Amber's component and mobility business revenue recovery was faster at ~84% of pre-Covid level YoY. The recovery was largely led by strong demand of non-AC components due to strong pent up demand of consumer appliances. The RAC segment business recovery was delayed to lower volume offtake by key customers as their major focus remained on liquidation of dealer level inventory. As channel inventory reached normal during Q2FY21, the company expects a significant improvement in the performance on a QoQ basis.

## Better mix, saving in other cost limits fall in EBITDA

The company has taken various cost optimisation measure in H1FY21 to mitigate losses. This coupled with better product mix and benefit of benign raw material prices limits the fall in absolute EBITDA. While EBITDA margin were almost same at Q2FY20 level at 5.3%. However, we believe the same would improve in FY22 with normalised sales.

## Valuation & Outlook

We continue to like Amber for its focus on acquiring new business opportunities either through government's Atmanirbhar scheme or shift in focus on China+1 strategy by key clients post Covid-19. We reiterate our **BUY** rating on the stock with an unchanged target price of ₹ 2600 valuing the company at 35x FY22 earnings.



### Particulars

Particular	Amount
Market Cap (₹ Crore)	6,874.2
Total Debt (FY20) (₹ Crore)	320.5
Cash & Inv (FY20) (₹ Crore)	120.3
EV (₹ Crore)	7,074.4
52 week H/L	2545/ 921
Equity capital (₹ Crore)	31.4
Face value (₹)	10.0

### Key Highlights

- Slow offtake by key clients keep recovery at 65% of RAC segments
- Component business recorded a strong recovery
- Gross margin increases ~200 bps YoY while EBITDA margin at 5.3% is close to Q2FY20 margin
- Domestic OEM/ODM to benefit from government's Atmanirbhar Bharat schemes
- Maintain BUY rating and target price

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### Key Financial Summary

₹ Crore	FY19	FY20E	FY21E	FY22E	FY23E	(CAGR 20-23E)
Net sales	2752.0	3962.8	3297.4	5402.7	6727.5	19.3
EBITDA	212.9	309.3	211.0	470.0	565.1	22.3
EBITDA Margin(%)	7.7	7.8	6.4	8.7	8.4	
Net Profit	94.8	164.1	79.9	253.0	303.4	22.7
EPS (₹)	30.1	52.2	23.7	75.1	90.0	
P/E(x)	72.5	41.9	92.1	29.1	24.3	
RoE (%)	9.6	14.5	5.3	14.3	14.7	
RoCE (%)	12.3	14.3	7.2	17.0	17.8	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	407.9	623.2	-34.5	259.5	57.2	Delay in recovery of RAC segment drags overall revenue in Q2FY21
Other Income	12.6	-0.1	-8991.3	3.0	316	
Raw Material Exp	327.9	513.9	-36.2	217.6	50.7	Gross margin up ~200 bps YoY led by better mix and benign raw material prices
Employee cost	22.6	25.1	-10.1	22.5	0.4	
Other Expenditure	35.9	47.6	-24.6	24.9	44.1	
Total Expenditure	386.3	586.5	-34.1	265.0	45.8	
EBITDA	21.6	36.7	-41.2	-5.5	-491.1	
EBITDA Margin (%)	5.3	5.9	-60 bps	-2.1	742 bps	Improved operating leverage coupled with various cost optimisation measures help in fast margin recovery
Depreciation	23.2	21.3	8.6	22.9	1.3	
Interest	11.7	10.6	10.1	10.2	13.9	
Exceptional items						
PBT	-0.6	4.6	-112.9	-35.6	-98.3	
Total Tax	-3.4	-7.5	-54.4	-11.7	-70.5	
PAT	2.8	12.2	-76.7	-23.9	-111.9	Decline in PAT largely attributable to lower sales and EBITDA

**Key Metrics\***

RAC	147.0	313.0	-53.0	159.0	-7.5	Key client's focus on liquidation of channel level inventory resulting in delay in recovery of RAC segment
Component & Mobile Applications	260.9	310.2	-15.9	100.5	159.8	Recovery in non AC component business faster compared to AC business

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ crore)	FY21E			FY22E			FY22E			Comments
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Revenue	3,306.8	3,297.4	(0.3)	5,525.0	5,402.7	(2.2)	6,512.1	6,727.5	3.3	We tweak our revenue estimate considering current quarter's
EBITDA	211.6	211.0	(0.3)	458.6	470.0	2.5	560.0	565.1	0.9	
EBITDA Margin (%)	6.4	6.4	0bps	8.3	8.7	40bps	8.6	8.4	-20bps	We believe EBITDA margin will remain at elevated level supported by better product mix (towards component and project business) and improved operating
PAT	63.9	79.9	25.1	237.7	253.0	6.4	300.5	303.4	1.0	
EPS (₹)*	19.0	23.7	24.9	70.6	75.1	6.4	89.2	90.0	1.0	

Source: Company, ICICI Direct Research

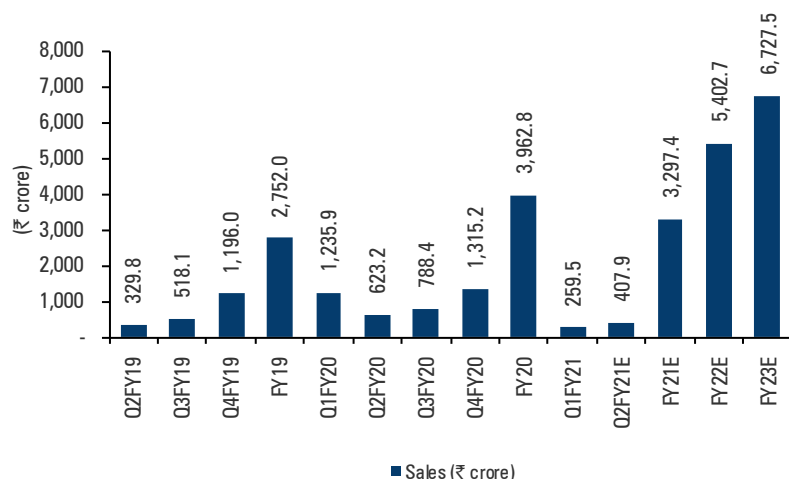
**Exhibit 3: Assumptions**

Current	Current				Earlier			Comments
	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
RAC	39.9	(18.8)	67.3	24.7	(20.8)	82.5	16.6	We believe incremental business opportunity due to import ban on RAC would help drive RAC revenue at CAGR of 18.5% in FY20-23E Intact business for Sidwal, coupled with increased wallet share from existing customers would help drive revenue at CAGR of 19% in FY20-23E for component and mobile application business
Component & Mobile Applications	51.0	(13.6)	58.7	24.2	(9.9)	45.7	20.0	

Source: Company, ICICI Direct Research

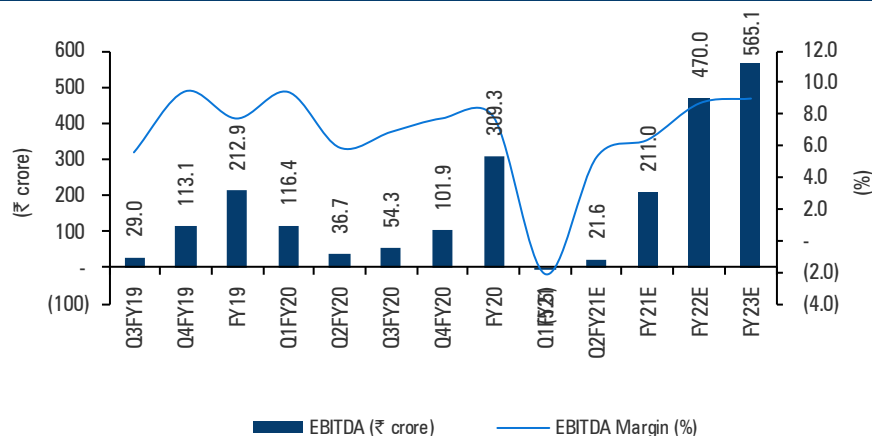
## Financial story in charts

**Exhibit 4: Gradual recovery in revenue from H2FY21E**



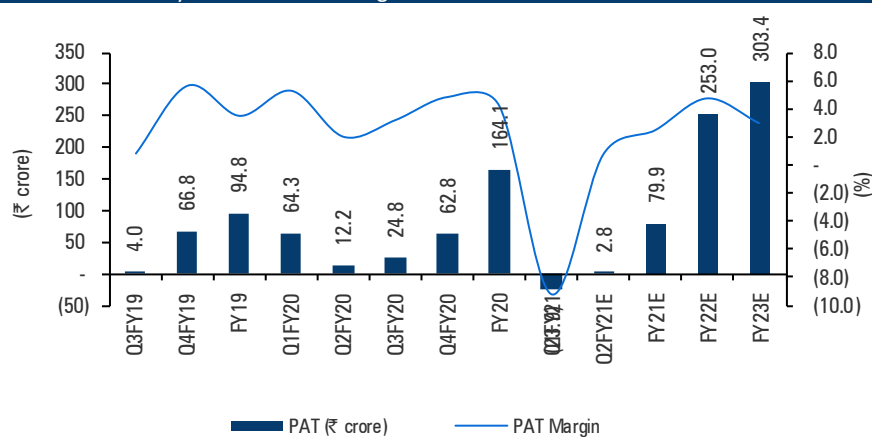
Source: Company, ICICI Direct Research

**Exhibit 5: Better EBITDA margin with improved utilisation level**



Source: Company, ICICI Direct Research

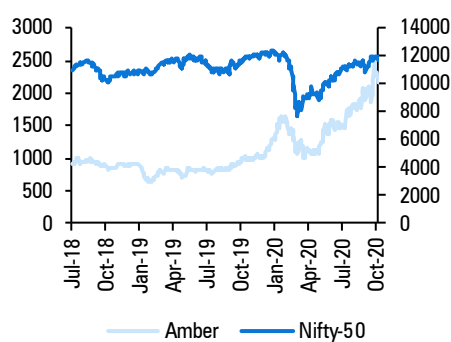
**Exhibit 6: Recovery in sales and margin to drive PAT**



Source: Company, ICICI Direct Research

## Conference call highlights

- Increased demand scenario helped to normalise inventory by the end of Q2FY21. We expect a strong H2FY21
- The company sees a significant business opportunity under the government's flagship programme 'Atmanirbhar Bharat'
- Signed four new clients under the benefit of Atmanirbhar Bharat Scheme. Also in negotiation with four more clients
- Capacity utilisation reached 45-50% in Q2FY20
- Already started exporting of motors and heat exchangers to overseas clients. Shortly, the company will also start exporting of PCBs
- The company has set up an office in the US and is in advanced discussion with major clients to start exporting of RAC components
- The commercial cooling segments industry is pegged at ₹ 6000 crore and Amber is exploring various opportunities to enter into the business.
- Sidwal (company's mobility business arm) won two order of worth ₹ 98 crore from DMRC in Q2FY21. The total order book of Sidwal stood at ₹ 350 crore which will be executed in next 18-20 months
- For the component business, the company is in advanced stages of discussions with four major clients.
- The component business EBITDA margin ranges between 6% and 12%, while Sidwal margin is ~22%
- Net debt at consolidated level was at ₹ 178 crore. The company used QIP funding to reduce the debt

**Exhibit 7: Historical price trend**


Source: Bloomberg, Company, ICICI Direct Research

**Exhibit 8: Shareholding Pattern**

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	44.0	44.0	44.0	44.0	40.3
FII	11.5	12.5	12.4	13.3	25.4
DII	5.9	6.0	7.2	6.5	9.5
Others	38.5	37.5	36.4	36.2	24.8

Source: Company, ICICI Direct Research

## Financial summary

Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>3,962.8</b>	<b>3,297.4</b>	<b>5,402.7</b>	<b>6,727.5</b>
Growth (%)	44.0	-16.8	63.8	24.5
<b>Expenses</b>				
Raw material expens	3,324.7	2,736.8	4,473.4	5,570.3
Employee expenses	106.3	102.2	135.1	161.5
Other expenses	245.5	247.3	324.2	430.6
Total Operating Exp	3,653.5	3,086.4	4,932.6	6,162.4
<b>EBITDA</b>	<b>309.3</b>	<b>211.0</b>	<b>470.0</b>	<b>565.1</b>
Growth (%)	45.3	-31.8	122.7	20.2
Depreciation	84.8	94.0	118.9	154.7
Interest	41.9	41.4	23.7	18.2
Other Income	8.2	23.1	10.8	13.5
PBT	190.7	98.7	338.3	405.6
Total Tax	26.6	18.8	85.2	102.2
<b>PAT</b>	<b>164.1</b>	<b>79.9</b>	<b>253.0</b>	<b>303.4</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	164.1	79.9	253.0	303.4
Add: Depreciation	84.8	94.0	118.9	154.7
(Inc)/dec in Current Assets	-176.3	-277.4	-623.2	-619.6
Inc/(dec) in CL and Provisions	211.5	-49.2	558.6	437.8
Others	41.9	41.4	23.7	18.2
<b>CF from operating activities</b>	<b>326.1</b>	<b>-111.3</b>	<b>331.0</b>	<b>294.6</b>
(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	-1.3	-0.8
<b>CF from investing activities</b>	<b>-276.5</b>	<b>-99.8</b>	<b>-211.3</b>	<b>-270.8</b>
Issue/(Buy back) of Equity	0.0	2.2	0.0	0.0
Inc/(dec) in loan funds	89.8	-80.0	-50.0	-50.0
Dividend paid & dividend tax	-12.1	-4.0	-8.1	-8.1
Others	-51.7	273.0	-23.7	-18.2
<b>CF from financing activities</b>	<b>26.0</b>	<b>191.2</b>	<b>-81.8</b>	<b>-76.3</b>
Net Cash flow	75.6	-19.9	37.9	-52.6
Opening Cash	44.7	120.3	100.4	138.3
Closing Cash	120.3	100.4	138.3	85.7

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	31.4	33.7	33.7	33.7
Reserve and Surplus	1,097.0	1,487.3	1,732.2	2,027.5
Total Shareholders funds	1,128.4	1,521.0	1,765.9	2,061.2
Total Debt	320.5	240.5	190.5	140.5
Other non current liabilities	178.0	178.0	178.0	178.0
<b>Total Liabilities</b>	<b>1,626.9</b>	<b>1,939.5</b>	<b>2,134.4</b>	<b>2,379.7</b>
<b>Assets</b>				
Gross Block	1,357.2	1,457.2	1,667.2	1,937.2
Less: Acc Depreciation	365.0	459.0	577.9	732.6
Total Fixed Assets	995.3	1,001.3	1,092.5	1,207.8
Goodwill	122.3	122.3	122.3	122.3
Inventory	655.7	722.7	1,036.1	1,290.2
Debtors	854.2	1,084.1	1,332.2	1,658.8
Loans and Advances	29.3	24.4	40.0	49.8
Other CA	86.8	72.2	118.4	147.4
Cash	120.3	100.4	138.3	85.7
Total Current Assets	1,746.3	2,003.9	2,664.9	3,231.9
Creditors	1,106.8	1,084.1	1,554.2	1,935.3
Provisions	12.8	12.5	17.9	22.3
Other CL	156.4	130.1	213.2	265.5
Total Current Liabilities	1,275.9	1,226.7	1,785.3	2,223.1
Net current assets	470.4	777.2	879.6	1,008.8
Other non current assets	38.9	38.7	40.0	40.9
<b>Total Assets</b>	<b>1,626.9</b>	<b>1,939.5</b>	<b>2,134.4</b>	<b>2,379.7</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	52.2	23.7	75.1	90.0
Cash EPS	79.2	51.6	110.4	136.0
BV	358.8	451.4	524.1	611.8
DPS	3.8	1.2	2.4	2.4
<b>Operating Ratios (%)</b>				
EBITDA Margin	7.8	6.4	8.7	8.4
PAT Margin	4.1	2.4	4.7	4.5
Asset Turnover	2.9	2.3	3.2	3.5
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
<b>Return Ratios (%)</b>				
RoE	14.5	5.3	14.3	14.7
RoCE	14.3	7.2	17.0	17.8
RoIC	15.0	6.5	17.2	17.1
<b>Valuation Ratios (x)</b>				
P/E	41.9	92.1	29.1	24.3
EV / EBITDA	22.9	33.2	14.7	12.3
EV / Net Sales	1.8	2.1	1.3	1.0
Market Cap / Sales	1.7	2.1	1.3	1.0
Price to Book Value	6.1	4.8	4.2	3.6
<b>Solvency Ratios</b>				
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	FY22E	FY20	FY21E	FY22E
Asian Paints (ASIPAI)	2,225	2,440	Buy	2,13,378	29.0	28.9	35.9	76.8	77.1	62.0	47.9	45.8	37.4	27.4	24.2	27.3	30.5	28.1	31.7			
Astral Polytechnik (ASTPOL)	1,200	1,260	Hold	18,079	16.6	15.0	23.3	72.4	80.2	51.6	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9			
Amber Enterprises (AMBEN)	2,186	2,600	Buy	6,874	52.2	23.7	75.1	41.9	92.1	29.1	22.9	33.2	14.7	14.3	7.2	17.0	14.5	5.3	14.3			
Bajaj Electricals (BAJELE)	496	585	Buy	5,639	-0.9	11.8	17.1	NM	41.9	29.1	31.4	22.1	16.9	8.0	10.8	14.7	-0.8	8.3	13.0			
Berger Paints (BERPAI)	653	580	Hold	63,419	6.8	6.1	9.7	96.7	106.6	67.1	51.7	55.0	37.8	26.6	22.0	31.3	24.7	19.7	27.1			
EPL (ESSPRO)	252	270	Buy	7,951	6.7	7.0	9.5	37.6	35.9	26.6	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3			
Havells India (HAVIND)	824	835	Buy	51,409	11.7	14.1	16.4	70.2	58.4	50.2	42.5	32.7	28.4	19.6	21.5	24.4	17.0	18.5	20.0			
Kansai Nerolac (KANNER)	527	605	Buy	28,401	9.9	10.3	12.0	53.0	51.3	43.8	35.6	33.2	29.3	17.6	18.4	19.6	14.1	14.3	15.1			
Pidilite Industries (PIDIND)	1,595	1,850	Buy	80,994	22.1	22.7	27.8	72.2	70.4	57.4	50.6	49.7	40.9	31.0	28.2	30.9	26.1	23.2	24.9			
Polycab India (POLI)	928	1,040	Buy	13,816	51.4	58.4	62.9	18.0	15.9	14.8	11.4	11.2	9.5	26.5	21.4	23.2	20.0	18.2	18.0			
Supreme Indus (SUPIND)	1,436	1,695	Buy	18,241	36.8	44.9	47.8	39.0	32.0	30.0	22.5	20.1	19.4	22.5	23.3	22.5	20.7	22.3	21.2			
Symphony (SYMLIM)	846	960	Buy	5,918	26.0	20.5	32.0	32.5	41.2	26.4	26.7	33.9	21.0	28.8	23.5	37.0	29.0	23.0	35.1			
Time Techno (TIMTEC)	39	47	Hold	882	7.5	3.4	9.4	5.2	11.5	4.2	3.3	4.5	3.0	12.5	7.4	13.5	9.3	4.3	11.0			
V-Guard Ind (VGUARD)	168	210	Buy	7,195	4.3	3.7	5.3	38.9	45.4	31.7	28.2	31.0	22.9	24.8	20.1	25.2	18.6	15.1	19.4			
Voltas Ltd (VOLTAS)	790	725	Buy	26,128	15.8	10.7	22.7	50.1	73.9	34.8	29.4	51.3	23.6	19.5	11.5	20.4	13.0	8.0	15.6			

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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