Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

# Amber Enterprises Limited

## Strong operational performance from key subsidiaries

| Capital Goods | Sharekhan code: AMBER | Result Update |
|---|---|---|

| 3R MATRIX | + | = | - |
|---|---|---|---|
| Right Sector (RS) | ✓ | | |
| Right Quality (RQ) | ✓ | | |
| Right Valuation (RV) | | ✓ | |

\+ Positive = Neutral - Negative

**What has changed in 3R MATRIX**

| | Old | | New |
|---|---|---|---|
| RS | | ↔ | |
| RQ | | ↔ | |
| RV | | ↔ | |

| Reco/View | Change |
|---|---|
| Reco: **Buy** | ↔ |
| CMP: **Rs. 2,184** | |
| Price Target: **Rs. 2,623** | ↑ |

↑ Upgrade ↔ Maintain ↓ Downgrade

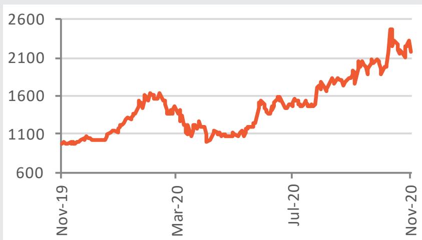
**Company details**

| | |
|---|---|
| Market cap: | Rs. 7,358 cr |
| 52-week high/low: | Rs. 2,545 / 921 |
| NSE volume: (No of shares) | 1.8 lakh |
| BSE code: | 540902 |
| NSE code: | AMBER |
| Free float: (No of shares) | 2.0 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 40.3 |
| FII | 25.4 |
| DII | 9.5 |
| Others | 24.9 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 12 | 28 | 100 | 124 |
| Relative to Sensex | 6 | 16 | 65 | 119 |

*Sharekhan Research, Bloomberg*


### Summary

- We recommend Buy on Amber Enterprises (Amber) with a PT of Rs. 2,623, given its strong net earnings growth outlook over FY2021E-FY2023E.
- Strong performance from subsidiaries supports operational performance while RAC business is affected by high channel inventory.
- Management expects Q3 to be flattish while Q4 to be much better. The benefit from the recent ban on import of fully built refrigerant ACs to accrue from Feb-March 2021.
- Export of components to start from FY2022 and RACs from CY2022. To build 18-20 product portfolio in commercial refrigeration over 2-3 years. Strong order backlog for Sidwal.


**Amber reported an operationally strong quarter leading to better than expected net profit. Consolidated revenue declined 34.5% y-o-y at Rs. 407.9 crore, (lower than estimates) wherein RAC business declined 53% y-o-y (as high channel inventory led to lower sales, 45-50% capacity utilisation) while components & mobile applications de-grew by 16% y-o-y (strong contribution from subsidiaries/JVs). OPM marginally dipped 60 bps y-o-y to 5.3% owing to higher contribution of Sidwal (almost 28% OPM for Q2). Hence, operating profit declined by 41.2% y-o-y to Rs. 22 crores. Negative operating leverage (despite higher other income) led to a decline of 85.9% y-o-y in adjusted net profit to Rs. 1.6 crore (although higher than our estimate). The management expects Q3 to be flattish (as RAC channel inventory has normalised to 6-7 lakh units from peak of 2.4-2.5 million units) while Q4 is expected to be much better (industry estimates double digit growth). The benefit from ban on fully built refrigerant ACs is expected to accrue from February-March 2021 wherein it has added four new large MNC customers (who were previously importing 100%) and is in talks with four new customers. On the export front, it expects to start RACs exports in CY2022 while in components the same is expected from FY2022. In commercial refrigeration (market size estimated at Rs. 6,500 crore), it has launched two new products and would develop 18-20 product portfolio over next 2-3 years. Amber reported negative operating cash flow of Rs. 207 crore (as it honoured payables partly offset by reduced receivables) during H1FY2021. Its net consolidated debt stood at Rs. 178 crore. We believe in the near term, with channel inventory normalising, Amber should revive RAC growth while its components & mobile application business improves its growth trajectory. Further, its overall growth longevity remains intact with opportunities arising from domestic manufacturing and China plus one global strategy. We have fine tuned our estimates for FY2021E-FY2022E. Amber's stock price has run-up 24% since our initiation on September 11, 2020. The stock is currently trading at a P/E of 49x/28x its FY2022E/FY2023E earnings, which we believe leaves further room for an upside. Hence, we recommend Buy on the stock with a price target (PT) of Rs. 2,623.**

### Key positives

- Strong beat on OPM led by contribution from Sidwal.
- RAC Channel inventory normalises and would lead to better H2FY2021
- Added four new large MNC customers and is in talks with other four new customers for ACs

### Key negatives

- Negative operating cash flows in H1FY2021 led to higher working capital requirement

### Our Call

**Valuation – Recommend Buy with a PT of Rs. 2,623:** Amber has risen 24% since our initiation dated September 11, 2020. The management expects a better H2FY21 with positive momentum seen across both room AC and components businesses along with benefit from impact of ban on refrigerant ACs to accrue in H2FY21. With its unique scalable and sustainable business model, we expect Amber to clock a 33%/61%/113% CAGR in Revenue/EBITDA/PAT over FY2021E-FY2023E led by enhanced capacity, increased product offerings and customer penetration coupled with healthy demand outlook for the electronic outsourcing industry. Amber is currently trading at a P/E ratio of 49x/28x its FY2022E/FY2023E, which leaves room for further upside, considering its high earnings growth trajectory over FY2021E-FY2023E. Hence, we recommend Buy on the stock with a PT of Rs. 2,623.

### Key Risks

1) Lower demand off-take due to economic slowdown (also due to COVID-19) might impact revenue growth momentum. 2) Lack of diversified revenue base in terms of product categories and high revenue concentration.

**Valuations (Consolidated)** Rs cr

| Particulars | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| Revenue | 3,963 | 3,150 | 4,213 | 5,537 |
| OPM (%) | 7.8 | 5.6 | 7.0 | 8.1 |
| Adjusted PAT | 158 | 54 | 141 | 245 |
| % y-o-y growth | 69 | (66) | 162 | 74 |
| Adjusted EPS (Rs.) | 50.4 | 16.0 | 41.9 | 72.9 |
| P/E (x) | 40.5 | 127.3 | 48.7 | 28.0 |
| P/B (x) | 5.7 | 4.4 | 4.0 | 3.5 |
| EV/EBIDTA (x) | 21.4 | 39.2 | 23.5 | 15.6 |
| RoNW (%) | 15.0 | 4.0 | 8.6 | 13.4 |
| RoCE (%) | 15.8 | 5.9 | 10.3 | 15.3 |

*Source: Company; Sharekhan estimates*

**Strong operational performance from key subsidiaries:** Amber India reported an operationally strong quarter leading to better than expect net profit. Consolidated revenue declined 34.5% y-o-y at Rs. 407.9 crore, (lower than estimates) wherein RAC business declined 53% y-o-y (as high channel inventory led to lower sales, 45-50% capacity utilisation) while components & mobile applications de-grew by 16% y-o-y (strong contribution from subsidiaries/JVs). OPM marginally dipped 60 bps y-o-y to 5.3% owing to higher contribution of Sidwal (almost 28% OPM for Q2). Hence, operating profit declined by 41.2% y-o-y to Rs. 22 crore. Negative operating leverage (despite higher other income) led to a 85.9% y-o-y decline in adjusted net profit to Rs. 1.6 crore (although higher than our estimate). During Q2, the volume of ACs stood at 1.9 lakh units while capacity utilization was around 45-50%. The channel inventory during onset of covid period stood at 2.4 to 2.5 million ACs. The same has normalized to 60 to 70 lakhs.

**Business bouncing back with long term growth opportunities intact:** Management expects Q3 to be flattish (as RAC channel inventory has normalised to 6-7 lakh units from peak of 2.4-2.5 million units) while Q4 is expected to be much better (industry estimates double digit growth). The benefit from the ban on fully built refrigerant ACs is expected to accrue from February-March 2021 wherein it has added four new large MNC customers (who were previously importing 100%) and is in talks with four new customers. On the export front, it expects to start RACs exports in CY2022 while in components the same is expected from FY2022. In commercial refrigeration (market size estimated at Rs. 6,500 crore), it has launched two new products and would develop 18-20 product portfolio over next 2-3 years. Amber reported a negative operating cash flow of Rs. 207 crore (as it honoured payables partly offset by reduced receivables) during H1FY2021. Its net consolidated debt stood at Rs. 178 crore. We believe in the near term, with channel inventory normalising, Amber should revive RAC growth while its components & mobile application business improves its growth trajectory. Further, its overall growth longevity remains intact with opportunities arising from domestic manufacturing and China plus one global strategy.

## Amber Enterprise Q2FY21 Concall Highlights

- **Volume and capacity utilization:** During Q2, the volume of ACs stood at 1.9 lakh units while capacity utilization was around 45-50%.
- **H2 Outlook:** The channel inventory during the onset of COVID-19 stood at 2.4 to 2.5 million ACs. The same has normalized to 60 to 70 lakhs. In October, the company saw flattish y-o-y growth. It expects Q3 to be flattish while Q4 would be much better (industry estimates double digit growth). Hence, the company expects H2 to be better. The AC industry is estimated to have declined by 32-33% y-o-y during H1FY2021.
- **Impact of import ban on ACs:** The company expects real impact of recent government notification to ban fully built ACs with refrigerants to come from February and March 2021. Out of 2.4 million imported ACs, 70% was refrigerant filled which would be the target market for Amber. It has added four new large MNC customers (who were previously importing 100%) while it is in talks with other four new customers.
- **Cost competitiveness:** China (80%) and Thailand (20%) are the major exporters of ACs of the 65 million global exports. Amber is competitive to Thailand in 1.5 to 2-ton AC category. However, it would take two to three years to be competitive in 1-ton AC category.
- **Component share:** In components, it has six verticals catering to entire consumer durables market. Components have a 75% share in the total imports while RACs is 25%. About Rs. 5,500-6,000 crore AC components are imported. Amber has capabilities in motors, PCBs, heat exchangers but not refrigerants. Out of amber's total revenues, 64% revenue share is of components, from which 60% came from non-AC (refrigerators, washing machines, water purifiers etc). It targets to bring the ratio to 50:50 over next three years.
- **Export opportunities:** In components, Amber has crossed reliability tests. By FY2022 it expects to receive orders. In RACs, it has started developing products. In January, it would be sending product sample. Reliability tests will be carried out during CY2021. Exports to start in CY2022.
- **Commercial Refrigeration:** The company launched two new products in commercial refrigeration. It would be developing 18-20 product portfolio over 2-3 years. The market size for commercial refrigeration is estimated at Rs. 6,500 crore.

- **Sidwal:** The company won two DMRC orders totalling Rs. 98 crore. The current order backlog stands at Rs. 350 crores which would be delivered over 18 to 24 months. Sidwal revenues/operating profit for Q2 stood at Rs. 47 crore/Rs. 13 crore and for H1 at Rs. 77 crore/Rs. 18 crore.
- **EL Jinn & Ever:** Four customers crossed reliability cycle while three new customers have started reliability cycle. The revenue is expected to start from next year. El Jinn revenue/OPM for Q2 was Rs. 81 crore/7.4% and for H1 at Rs. 98 crore/4.4%. Ever revenue/OPM for Q2 was Rs. 45 crore/5.9% and for H1 is Rs. 62 crore/2.3%.

**Quarterly results (consolidated)** Rs cr

| Particulars | Q2FY21 | Q2FY20 | YoY(%) | Q1FY21 | QoQ(%) |
|---|---|---|---|---|---|
| Net Sales | 408 | 623 | -34.5% | 259 | 57.2% |
| Total Expenditure | 386 | 587 | -34.1% | 265 | 45.8% |
| Operating profits | 22 | 37 | -41.2% | (6) | -% |
| Other Income | 13 | (0) | - | 3 | -% |
| Interest | 12 | 11 | 10.1% | 10 | 13.9% |
| Depreciation | 23 | 21 | 8.6% | 23 | 1.3% |
| PBT | (1) | 5 | - | (36) | -% |
| Exceptional item | - | - | | - | |
| PBT | (1) | 5 | - | (36) | - |
| Tax | (3) | (8) | - | (12) | - |
| Adj. PAT | 1.66 | 12 | -85.9% | (22) | - |
| EPS | 0.5 | 3.6 | -85.9% | (7.1) | - |
| **Margins (%)** | | | **BPS** | | **BPS** |
| OPM | 5.3 | 5.9 | (60) | (2.1) | - |
| PATM | 0.4 | 1.9 | (148) | (8.7) | - |
| Tax Rate | - | - | - | - | - |

*Source: Company; Sharekhan Research*

## Outlook and Valuation

### Sector view – Demand outlook encouraging, healthy growth prospects

The COVID-19 outbreak that resulted in a lockdown in several countries is likely to impact the company's performance in the near term. However, from the medium to long-term perspective, it will provide enormous opportunities owing to the shift in manufacturing base outside China and the government's incentives to enhance manufacturing through Make in India initiative. An enhanced capacity and wider product offerings and customer penetration is likely to drive the company's performance in addition to healthy demand outlook for the electronics outsourcing industry.

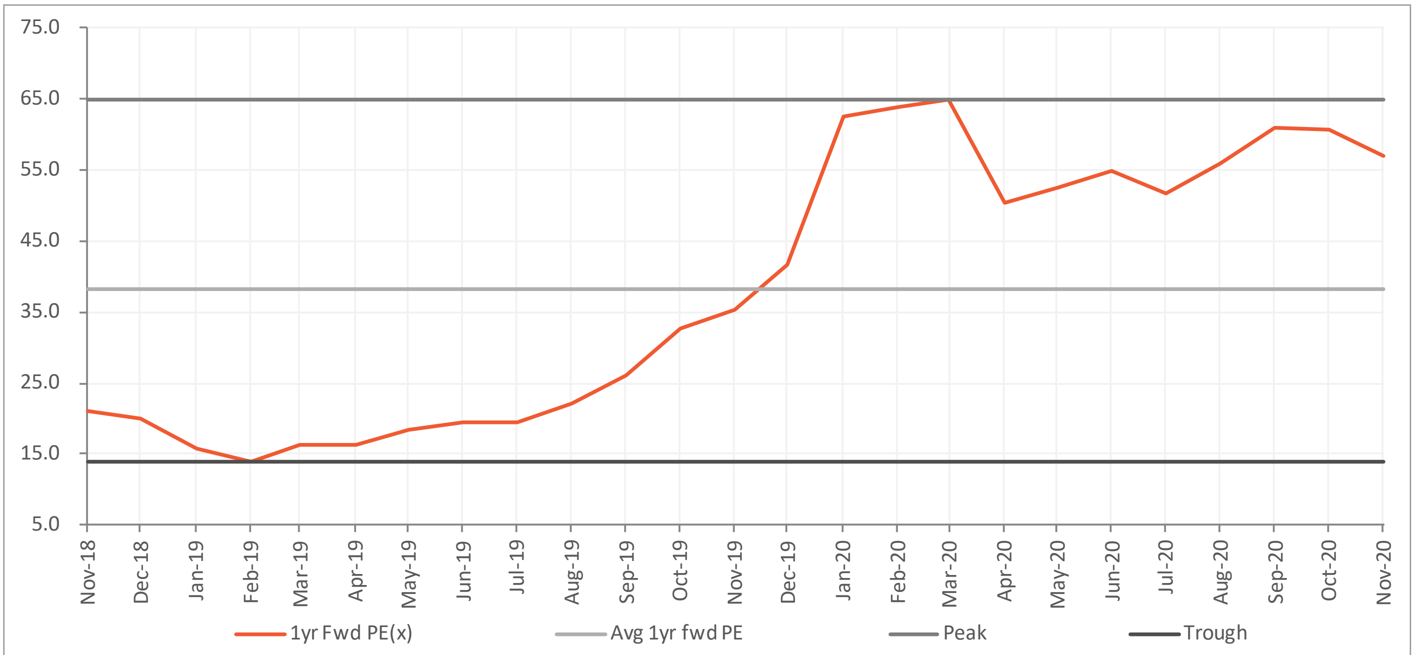
### Company outlook - Multiple growth avenues in offing

Amber has emerged as a market leader in the Indian RAC OEM/ODM industry with a 70.7% share and has 24.4% market share in the overall RAC market in FY2020, with 8 out of 10 RAC brands as clients. Amber has strong growth tailwinds as RAC sales volumes in India are projected to clock a 13.7% CAGR over FY2020-FY2025 while RAC OEM/ODM at a 19.5% CAGR led by rising disposable incomes, urbanisation, lower RAC penetration (8%), extreme climatic conditions and rising construction activities. The company's 15 manufacturing facilities are located close to clients. A high degree of backward integration, strong R&D capabilities enables faster turnaround and higher proportion of ODM. We expect Amber to post 33%/61%/113% CAGR in Revenue/EBITDA/PAT over FY2021E-FY2023E.

### Valuation - Recommend Buy with a PT of Rs. 2,623

Amber has risen 24% since our initiation dated September 11, 2020. The management expects a better H2FY21 with a positive momentum seen across both room AC and components businesses along with benefit from impact of ban on refrigerant ACs to accrue in H2FY21. With its unique scalable and sustainable business model, we expect Amber to clock a 33%/61%/113% CAGR in Revenue/EBITDA/PAT over FY2021E-FY2023E led by enhanced capacity, increased product offerings and customer penetration coupled with healthy demand outlook for the electronic outsourcing industry. Amber is currently trading at a P/E ratio of 49x/28x its FY2022E/FY2023E, which leaves room for further upside, considering its high earnings growth trajectory over FY2021E-FY2023E. Hence, we recommend Buy on the stock with a PT of Rs. 2,623.

**One-year forward P/E (x) band**




*Source: Sharekhan Research*

## About company

Incorporated in 1990, Amber has emerged as a market leader in Indian Room AC OEM/ODM industry. The company comprehensive product portfolio includes Room AC (Indoor & Outdoor units as well as window ACs), reliable critical components, which has long approval cycle. The company is one of the largest manufacturer & supplier of critical components like heat exchangers, PCBs, motors, Sheet metal, case liner etc of RAC & other consumer durables like Refrigerators and Washing Machines. Amber has emerged as a market leader in Indian RAC OEM/ODM industry with 70.7% market share and 24.4% market share in overall RAC market in FY2020, with 8 out of 10 RAC brands as clients. The company has 15 manufacturing facilities strategically located close to customers, enabling faster turnaround and it also has high degree of backward integration coupled with strong R&D capabilities, resulting in high proportion of ODM. The company has been serving majority of customers for over 5 years and has a marquee customer base as 8 out of top 10 RAC brands are its clients.

## Investment theme

Amber Enterprises has a market leadership position in the OEM/ODM segment for branded room ACs. Also, the opportunity size seems to be increasing at the OEM players are now more focused on innovation and marketing side of the business and relying on outsourcing for manufacturing of their products. We believe that enormous growth opportunities would come across going forward owing to global players shifting manufacturing base outside China and Government of India to enhance manufacturing through Make in India initiative by providing incentives. Healthy demand outlook for the electronic outsourcing industry and enhanced capacity, increased product offerings and customer penetration is likely to drive company's performance.

## Key Risks

- Lower demand off-take due to economic slowdown (also due to COVID-19) might impact revenue growth momentum and raw material price volatility and forex rate fluctuation can impact profitability.
- Lack of diversified revenue base in terms of product categories and high revenue concentration with few customers poses a threat to revenues.

## Additional Data

**Key management personnel**

| | |
|---|---|
| Jasbir Singh | Executive Chairperson cum CEO |
| Daljit Singh | Executive Managing Director |
| Sudhir Goyal | Chief Financial Officer |
| Konica Yadav | Company Secretary & Compliance Officer |

*Source: Company Website*

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | Ascent Investment Holdings Pte Ltd | 20.92 |
| 2 | Edelweiss Alternative Investment Opportunities Trust | 3.38 |
| 3 | Goldman Sachs Funds - Goldman Sachs Emerging Market | 2.17 |
| 4 | Abu Dhabi Investment Authority - Behave | 2.13 |
| 5 | Icici Prudential Life Insurance Company Limited | 2.13 |
| 6 | Icici Prudential Smallcap Fund | 1.66 |
| 7 | Kotak Funds - India Midcap Fund | 1.62 |
| 8 | Goldman Sachs India Limited | 1.60 |
| 9 | Akash Bhanshali | 1.59 |
| 10 | L&T Mutual Fund Trustee Limited-L&T Emerging Business | 1.46 |

*Source: Bloomberg*

## Understanding the Sharekhan 3R Matrix

| | |
|---|---|
| **Right Sector** | |
| Positive | Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies |
| Neutral | Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies |
| Negative | Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability. |
| **Right Quality** | |
| Positive | Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance. |
| Neutral | Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable |
| Negative | Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet |
| **Right Valuation** | |
| Positive | Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment. |
| Neutral | Trading at par to historical valuations and having limited scope of expansion in valuation multiples. |
| Negative | Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple. |

*Source: Sharekhan Research*

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