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Stock Update

Amber Enterprises Limited

Operationally strong Q3, bright times ahead

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. 2,621**	
Price Target: **Rs. 3,170**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

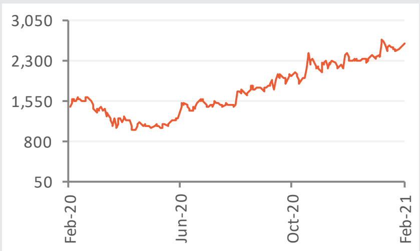
Company details

Market cap:	Rs. 8,832 cr
52-week high/low:	Rs. 2,776/921
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	28.1
DII	8.0
Others	23.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.3	17.4	75.3	358.7
Relative to Sensex	11.1	1.0	53.7	346.3

Sharekhan Research, Bloomberg

Summary

- We retain Buy on Amber Enterprises Limited (Amber) with an unchanged PT of Rs. 3,170, given a strong net earnings growth outlook over FY2021E-FY2023E.
- Q3FY21 was an operationally strong quarter leading to better-than-expected net profit, while normalised inventory levels led to muted revenues.
- Management expects Q4FY21 to be much better as inventory normalises and hopes of a strong summer. Company would be one of the key beneficiaries from import ban on ACs with refrigerants and likely expansion of PLI schemes for AC and components.
- Management remains optimistic about export prospects for both fully built-up units and components that can potentially emerge over the next 3-4 years.

Amber reported operationally strong quarter leading to better-than-expected net profit. Consolidated revenue declined by 3% y-o-y at Rs. 764.7 crore, (lower than estimates) as the industry achieved normalised inventories led by sustained retail & OEM demand. RAC revenues came at Rs. 413 crore versus Rs 431 crore in Q3FY20 (down 4% y-o-y) while components & mobility application revenues declined by 2% y-o-y to Rs. 352 crore. OPM expanded by 136 bps y-o-y to 8.2% (higher than estimates) on cost control measures and a 216 bps rise in gross margins. Accordingly, EBITDA improved 16.1% y-o-y to Rs 63 crore. Higher operating leverage and a rise in other income (Rs 89.7 crore vs Rs 21.9 crore), lower interest cost (down 18% y-o-y and 16% q-o-q) drove up adjusted PAT by 19.3% y-o-y to Rs. 26.9 crore (better than estimates). The management indicated that demand uptick in September continued in Q3 led by a festive season, pre-buying by dealers leading to driving normalised levels of inventories and expect Q4FY21 to be much better as inventory normalised and anticipation of a strong summer. The benefit from the ban on fully-built refrigerant ACs is expected to accrue in coming quarters wherein it has added six new large customers. The government is planning PLI schemes with Rs. 5,000 crore of incentives for ACs on cards where Amber is slated to benefit from upcoming opportunities although details are still awaited. 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 portfolios over next 2-3 years. Its net consolidated debt stood at Rs. 263 crore. The company has lined up a capex plan worth Rs. 300 crore for two greenfield projects, one in Pune and other in South India (either in Sri City or Chennai). Both plants would have a 1 MTPA capacity each. The Pune plant is expected to start production in Q4FY2022 while the South India plant is expected in Q1FY2023. 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. Overall, we believe the company has a long runway for growth with multiple growth drivers across its product verticals. The stock is currently trading at a P/E of 62.5x/36x its FY2022E/FY2023E earnings, which we believe leaves further room for an upside. Hence, we retain Buy on the stock with an unchanged price target (PT) of Rs. 3,170.

Key positives

- Strong beat on OPM lead by cost-control measures.
- RAC Channel inventory normalises and expected to lead to better Q4FY21 volumes.
- Added six new large MNC customers and is in talks with other four new customers for ACs.

Key negatives

- Order intake remained sluggish for its Sidwal subsidiary due to slow uptake on production from railways.

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 3,170: Amber is well-placed to capture incremental demand accruing from the indigenization of both fully built-up units and components ecosystem development through reduced imports and likely expansion of PLI schemes for AC and components. Management remains optimistic about export prospects for both fully built-up units and components that can potentially emerge over the next 3-4 years. 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 62.5x/36x its FY2022E/FY2023E earnings, which we believe leaves further room for an upside. Hence, we retain Buy on the stock with an unchanged price target (PT) of Rs. 3,170.

Key risk

1) Lower demand 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)	52.0	163.6	62.5	36.0
P/B (x)	7.3	5.6	5.2	4.5
EV/EBITDA (x)	27.3	50.4	30.2	20.0
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: Amber reported an operationally strong quarter that led to a better-than-expected net profit. Consolidated revenue declined 3% y-o-y at Rs. 764.7 crore, (lower than estimates) as industry achieved normalised inventory levels on the back of sustained retail & OEM segment demand. RAC revenues came at Rs. 413 crore versus Rs. 431 crore in Q3FY20 (down 4% y-o-y) while Components & Mobility Application revenues declined by 2% y-o-y to Rs 352 crore. OPM expanded 136bps y-o-y to 8.2% (higher than estimates) on cost-control measures and gross margins expansion (up 216bps). Accordingly, EBITDA improved 16.1% y-o-y to Rs 63 crore. Higher operating leverage along with higher other income (Rs 89.7 crore vs Rs 21.9 crore), lower interest cost (down 18% y-o-y and 16% q-o-q) driving adjusted PAT higher by 19.3% y-o-y to Rs. 26.9 crore (better than estimates).

Business bouncing back with demand uptick: The management indicated that demand uptick in Sept continued in Q3 led by the festive season, pre-buying by dealers leading to driving normalised levels of inventories and expects Q4FY21 to be much better as inventory has normalised and a strong summer is anticipated. The benefit from the ban on fully-built refrigerant ACs is expected to accrue in coming quarters wherein it has added six new large customers. The government has planned Rs. 5,000 crore of incentives for ACs where Amber is slated to benefit from upcoming opportunities although details are still awaited. On the export front, it expects to start shipping RACs 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. Its net consolidated debt stood at Rs. 263 crore. The company has lined up a capex plan worth Rs. 300 crore for two greenfield projects, one in Pune and other in South India (either in Sri City or Chennai). Both plants would have a 1 MTPA capacity each. The Pune plant is expected to start production in Q4FY2022 while the South India plant is expected in Q1FY2023. We believe that in the near term, with channel inventory normalising, Amber should revive RAC growth while its components & mobile application business improves its growth trajectory.

Key Conference call takeaways

- **RACs:** Industry demand momentum sustained in Q3, with channel inventory normalising for the industry. Hence, Q4 should see a strong bounce-back as compared to a 5% decline in volumes in Q3.
- **Commercial AC line:** The company has started commercial AC line for 3.5-tonne and 4.5-tonne products with a focus on developing products till 17-tonne capacity.
- **Import ban on Air-conditioners with Refrigerants:** Amber has signed six new customers since the government has imposed an import ban on CBU with refrigerants. At the initial stage, the brands are looking for gas filling (industry will see 2 million units due to the import ban) and new customer additions are for the same. Since December 2020, the company has started gas charging from Pune and Jhajjar facilities.
- **In-house manufacturing from other brands:** Brands are also looking for enhancing in-house manufacturing. However, this will not impact Amber as component supplies will continue. Currently, there are 16 RAC manufacturers in India - both brands and contract manufacturers.
- **Exports:** The company will submit exports samples to US customers in 2021. The samples are still under development. Order inflows can be expected from next calendar year. Components exports continue under PICL. Over the next 4-5 years, management is hopeful of 10- 15% contribution from exports to total revenues.
- **PLI scheme:** This will play a bigger role for exports and the company is also developing products at faster pace for export markets. Amber will be able to take advantage of the PLI scheme for both green capacity expansion and component business. The draft guidelines are expected in Feb and the final scheme notification will take another two months.
- **Costs:** Commodity price inflation will drive up end-consumer prices by 5-7%. Consumer demand after the price hike is still under awaited as there are instances in the past that price hikes take almost one year to get absorbed. Retailers are apprehensive to fill inventory after price hikes from Jan'21.

- **Commodity impact:** Amber has passed on the impact of commodity inflation across the customers.
- **Components:** Added Voltas Beko as a new customer for Washing Machine and Refrigerator components. Additional demand will come from Toshiba as the upcoming Pune plant is next to Toshiba's facility. Amber can cater to 25% of BoM for washing machines and for refrigerators it is 20-25%. Key customers are Refrigerator - LG and Godrej and Washing machines - IFB, Panasonic, Voltas Beko and LG.
- **Subsidiaries' performance:** Margin expansion in subsidiaries is still available through product mix (higher proportion of ODM solutions) and higher export sales. Voltas and Blue Star have been added in ILJIN and Ever for PCBAs. On inventory PCBAs, the company has added four new customers in ILJIN.
- **Margin expansion for PICL:** has been driven by rising export sales. The company is on track to double PICL revenue in 2-3 years. Exports contribute 20% of total sales and the target is to reach 50% in next 2-3 years. Three new models for IDU motors are getting developed and will be available from June.
- **Sidwal:** The subsidiary won four new orders in Q3 worth Rs120 crore, with the total order book now stands at Rs. 400 crore to be executed in 24 months. Sales were impacted due to slow offtake from Railways. There has been no order cancellation and market share loss for Sidwal.
- **Balance sheet:** Gross debt stood at Rs 420 crore versus Rs 490 crore in Q3FY20, while net debt was at Rs263 crore vs. Rs343 crore, respectively.
- **Capacity expansion:** The company has completed the land acquisition (10 acres) for the Supa Plant that will be operational by Q4FY22. The facility will have a manufacturing capacity of 1 million units along with components.
- **Capex:** Pune and South plant will see total capex of Rs300 crore, out of which Rs15 crore has been incurred and remaining will be spread out over Q4FY21-FY23E. The South India facility will also be a 10-acre facility in Sri City, Andhra Pradesh.

Quarterly results (consolidated) Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Net Sales	765	788	-3.0%	408	87.5%
Total Expenditure	702	734	-4.4%	386	81.6%
Operating profits	63	54	16.1%	22	-
Other Income	9	2	-	13	-28.9%
Interest	9	11	-18.2%	12	-26.2%
Depreciation	24	21	9.6%	23	1.5%
PBT	40	24	62.9%	(1)	-
Tax	12	(0)	-	(3)	-
PAT	27.9	25	12.4%	3	-
Adj. PAT after minority	26.9	23	19.3%	2	-
EPS	8.0	6.7	19.3%	0.5	-
Margins (%)			**BPS**		**BPS**
OPM	8.2	6.9	136	5.3	295
PATM	3.5	2.9	66	0.4	312
Tax Rate	30.1	(1.3)	-	-	-

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 affect 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.

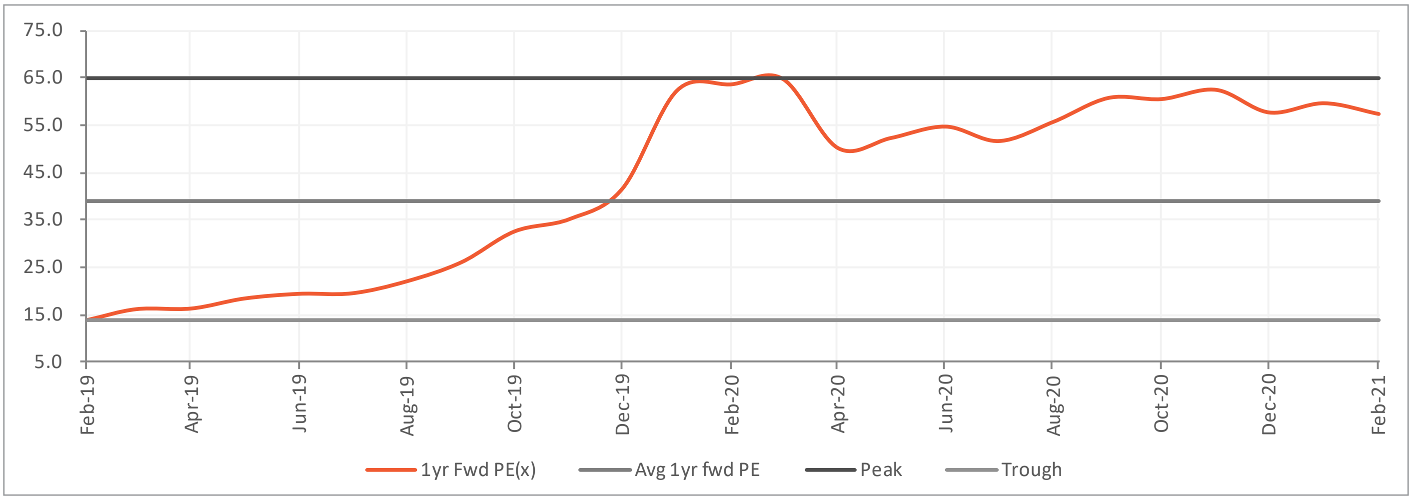
■ Company Outlook – Long runway for growth

Management expect Q4FY21 to be much better as inventory normalised and anticipation of strong summers. Further, Amber is well-placed to capture the incremental demand accruing from the indigenization of both fully built-up units and components ecosystem development through reduced imports and likely expansion of PLI schemes for AC and components. The company has lined up a capex plan worth Rs. 300 crore for two greenfield projects, one in Pune and other in South India (either in Sri City or Chennai) and production from these will further augment revenues. The management remains optimistic about export prospects for both fully built-up units and components that can potentially emerge over the next 3-4 years.

■ Valuation – Retain Buy with an unchanged PT of Rs. 3,170

Amber is well-placed to capture incremental demand accruing from the indigenization of both fully built-up units and components ecosystem development through reduced imports and likely expansion of PLI schemes for AC and components. Management remains optimistic about export prospects for both fully built-up units and components that can potentially emerge over the next 3-4 years. 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 62.5x/36x its FY2022E/FY2023E earnings, which we believe leaves further room for an upside. Hence, we retain Buy on the stock with an unchanged price target (PT) of Rs. 3,170.

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

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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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