



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. 2,630	
Price Target: Rs. 3,170	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

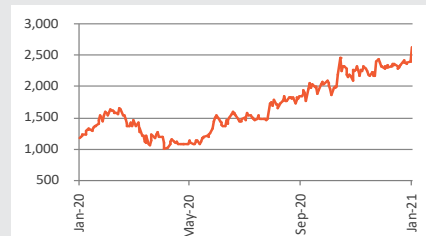
Company details

Market cap:	Rs. 8,860 cr
52-week high/low:	Rs. 2699/922
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	14.8	30.0	79.3	124.6
Relative to Sensex	8.7	9.2	48.0	106.7

Sharekhan Research, Bloomberg

Amber Enterprises Limited

A long runway for growth

Capital Goods

Sharekhan code: AMBER

Company Update

Summary

- We retain a Buy on Amber Enterprises (Amber) with a revised PT of Rs. 3,170, given multiple growth drivers that brighten the net earnings growth outlook over FY2021E-FY2023E.
- Company would be one of the key beneficiaries from the import ban on ACs with refrigerants and likely expansion of PLI schemes for AC and components.
- Capex expansion of 1 MTPA each at two locations for ACs and components to come onstream by Q1FY2023.
- Export of components to start from FY2022 and RACs from CY2022. It is set to build 18-20 commercial refrigeration products over 2-3 years. Order backlog is strong across products.

Amber Enterprises (Amber) is one of the key beneficiaries of 1) The import ban on ACs with refrigerants and 2) government's likely plan to expand production-linked incentive (PLI) schemes for ACs and components. Amber, being a market leader in the RAC OEM/ODM industry with a market share of 71% and 24% share in the overall RAC market as of FY2020 is well-placed to benefit from upcoming opportunities. 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 completely resorting to imports) and is in talks with four new customers. Its components and mobile applications business (~40% of revenues) is slated to benefit from upcoming opportunities in developing a components ecosystem by the government through PLI schemes. 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 South India plant is expected in Q1FY2023. The company also has a strong order book in all its three segments viz. ACs, components and mobility. On the export front, it expects to start RAC 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 in the next 2-3 years. 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 62.7x/36.1x its FY2022E/FY2023E earnings, which we believe leaves further room for an upside. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 3,170.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 3,170: Amber's stock has risen 49% since our initiation dated September 11, 2020 led by strong outlook in RACs supported by favourable government policies. 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 62.7x/36.1x its FY2022E/FY2023E earnings, which we believe leaves further room for an upside. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 3,170.

Key Risks

1) Lower demand offtake 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.

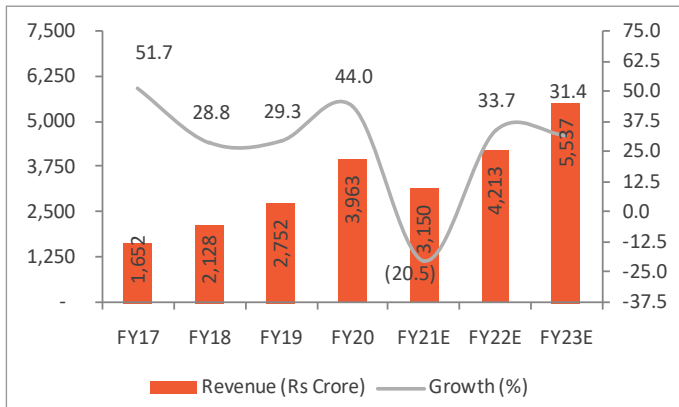
Valuation (Consolidated)

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)	52.2	164.2	62.7	36.1
P/B (x)	7.3	5.6	5.2	4.5
EV/EBITDA (x)	27.4	50.6	30.3	20.0
RoNW (%)	15.0	4.0	8.6	13.4
RoCE (%)	15.8	5.9	10.3	15.3

Source: Company; Sharekhan estimates

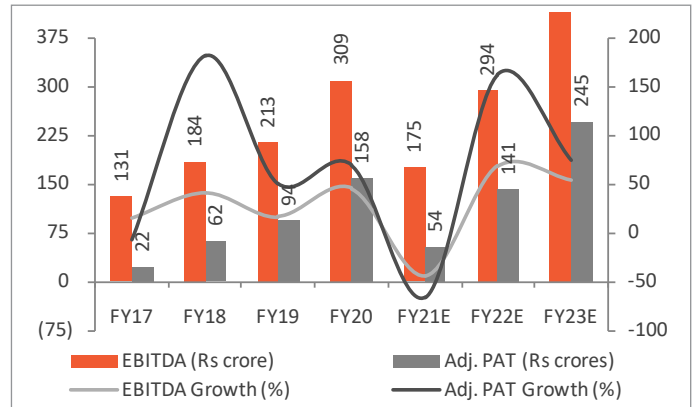
Financials in charts

Revenue trend



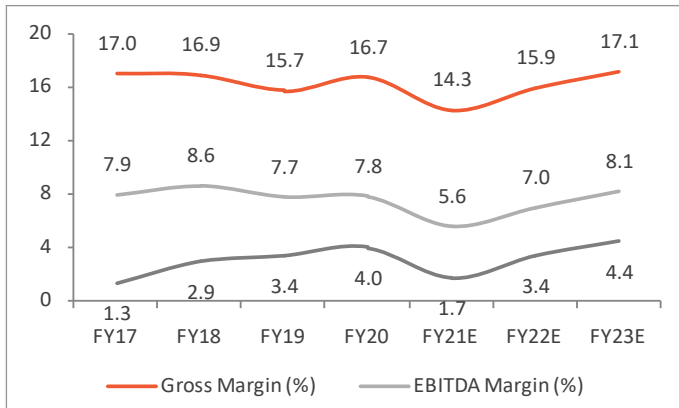
Source: Company, Sharekhan Research

EBITDA/PAT trend



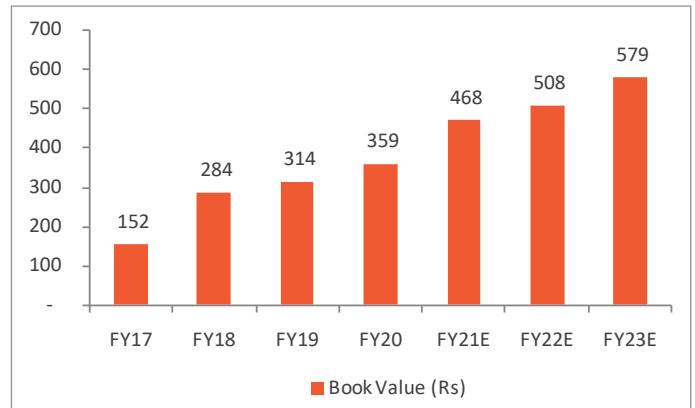
Source: Company, Sharekhan Research

Margins trend



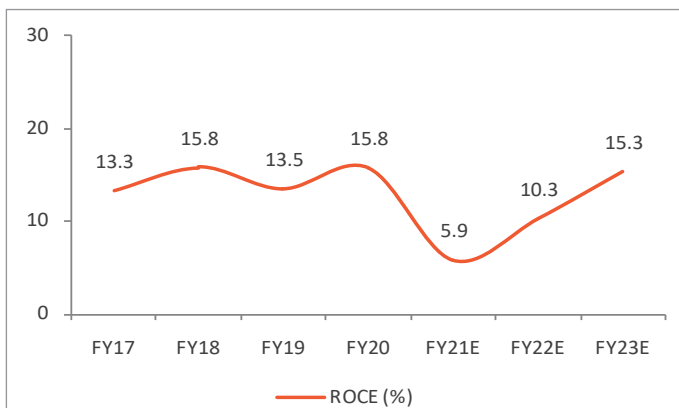
Source: Company, Sharekhan Research

Book Value trend



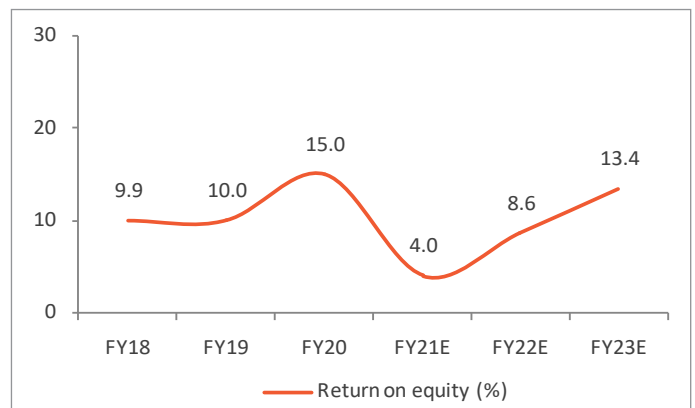
Source: Company, Sharekhan Research

ROCE trend



Source: Company, Sharekhan Research

ROE trend



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.

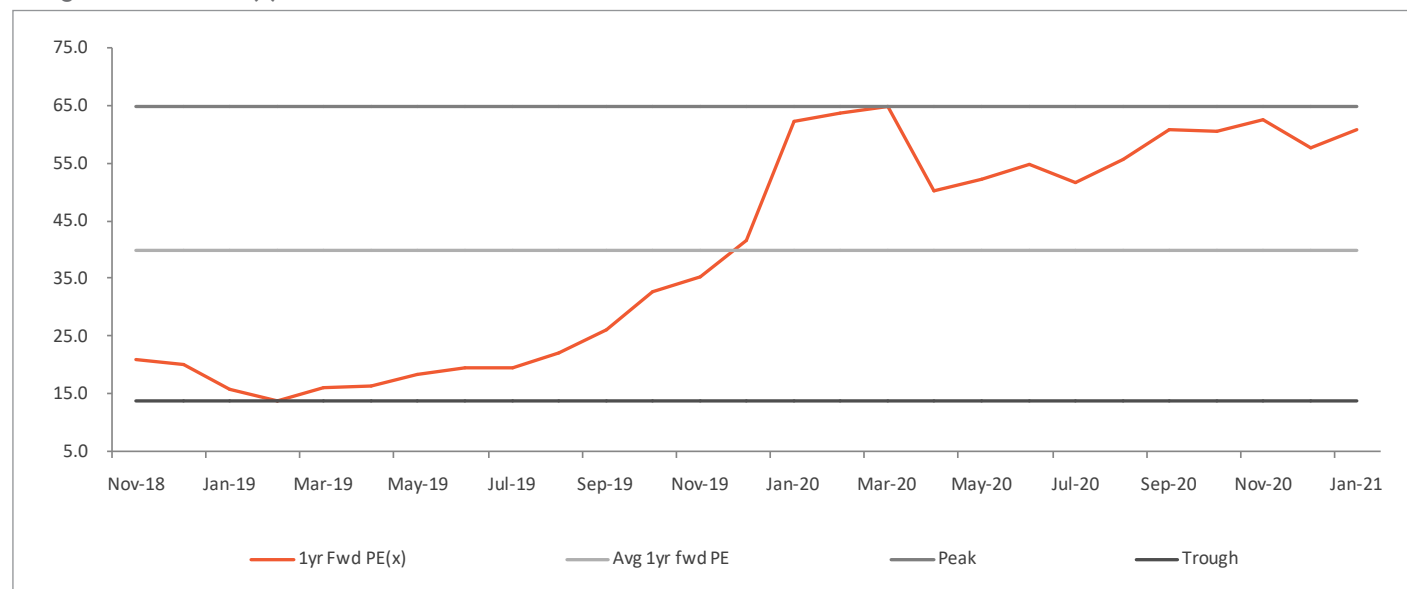
■ Company outlook - Multiple growth avenues in offing

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 - Retain Buy with a revised PT of Rs. 3170

Amber's stock has risen 49% since our initiation dated September 11, 2020 led by strong outlook in RACs supported by favourable government policies. 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 62.7x/36.1x its FY2022E/FY2023E earnings, which we believe leaves further room for an upside. Hence, we retain Buy on the stock with a revised 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Singh Jasbir	20.95
2	Singh Daljit	18.03
3	Ascent Investment Holdings	9.76
4	Goldman Sachs Group Inc	4.63
5	Icici Prudential Life Insurance Company Limited	2.80
6	Emirate of Abu Dhabi UAE	1.86
7	Vanguard Group Inc	1.81
8	Taiyo Greater India Fund	1.78
9	Akash Bhanshali	1.48
10	Kotak Mahindra AMC	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 deteriorating 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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