

Strong recovery amid demand revival...

In Q3FY21, Amber Enterprises reported a strong topline recovery at 97% compared to its pre-Covid sales in Q3FY20. The recovery was led by its component and mobility application (CMA) business, which reported almost 100% recovery in Q3FY21 YoY (up 35% QoQ). Further, the revenue contribution of CMA division in topline also increased to 46% in Q3FY21 from 45% in Q3FY20 (50% for 9MFY21 vs. 40% in 9MFY20). The rising contribution bodes well for overall business as CMA business commands EBITDA margin in the range of 6-22%. On the RAC front, the company witnessed a solid volume recovery QoQ (3x jump) as major clients of the company saw strong pent up demand of RACs from the urban, semi urban regions in Q3FY21. The company believes normalised channel inventory and volume offtake for upcoming season are key growth drivers for Amber in the near future. The company has further earmarked a capex plan of ₹ 300 crore for FY22E-23E to add capacities in Pune and Sri City. We see a long term play in Amber given a significant business opportunity arising through import restrictions on RAC and its components (business opportunity of ~₹ 10,000 crore) and India's AC export opportunities (market share may cross ₹ 27,000 crore in the next 10 years from mere ₹ 450 crore in FY19).

Faster recovery in component, mobility business

On the CMA business front, the component business recorded a strong recovery due to addition of new clients and strong demand of non AC component business (i.e. component for washing machines and refrigerators). However, business recovery in Sidwal was slightly delayed (sales recovery was 64% vs. ~97% recovery in overall consolidated sales) owing to slow execution of orders from railways and metros. However, the company sees a strong recovery in Sidwal (with order book of ₹ 400 crore) going forward, with railways & metros starting operations post ease in lockdown restrictions. The company has also witnessed increased inquiry for export of its components (motors & heat exchangers).

Focus on maintaining EBITDA margin, going forward

Gross margin during the period was up ~150 bps YoY due to use of low cost of inventories. However, the company has taken price hikes to offset rising input prices. This, along with improving product mix (rising contribution of CMA business) and various cost optimisation measures are likely to keep EBITDA margins elevated.

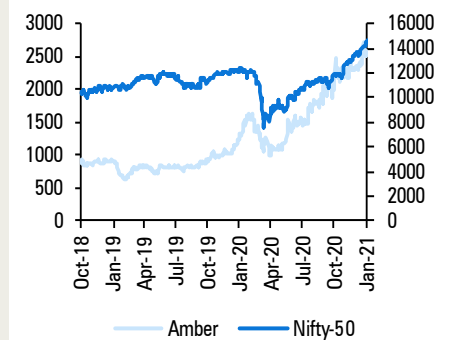
Valuation & Outlook

We revised our earnings estimate upward for FY23E to 8% and model revenue, PAT CAGR of 19%, 26%, respectively, in FY20-23E. We believe EBITDA margin would remain elevated with various cost optimisation measures. We reiterate our **BUY** rating with a revised target price of ₹ 3025 valuing the company at 31x FY23 earnings (earlier TP of ₹ 2830).



Particulars	
Particular	Amount
Market Cap (₹ Crore)	8,242.1
Total Debt (FY20) (₹ Crore)	320.5
Cash & Inv (FY20) (₹ Crore)	120.3
EV (₹ Crore)	8,442.3
52 week H/L	2776/ 921
Equity capital (₹ Crore)	31.4
Face value (₹)	10.0

Price chart



Key risk to our call

- Extended winter season may delay volume recovery, going forward
- Price increase in key raw materials and delay in passing on the same

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Key Financial Summary

₹ Crore	FY19	FY20E	FY21E	FY22E	FY23E	(CAGR 20-23E)
Net sales	2752.0	3962.8	3277.1	5375.8	6695.2	19.1
EBITDA	212.9	309.3	232.7	440.8	582.5	23.5
EBITDA Margin(%)	7.7	7.8	7.1	8.2	8.7	
Net Profit	94.8	164.1	100.5	229.8	328.7	26.0
EPS (₹)	30.1	52.2	29.8	68.2	97.6	
P/E(x)	87.0	50.2	87.8	38.4	26.9	
RoE (%)	9.6	14.5	6.5	13.0	15.8	
RoCE (%)	12.3	14.3	8.4	15.3	18.7	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	764.7	788.4	-3.0	407.9	87.5	Strong recovery in overall business led by demand pick-up in both RAC and component business
Other Income	9.0	2.2	308.9	12.6	-29	
Raw Material Exp	623.1	654.0	-4.7	327.9	90.1	Gross margin up ~150 bps YoY led by better mix and use of lower cost
Employee cost	27.3	27.1	0.8	22.6	20.8	
Other Expenditure	51.3	53.1	-3.5	35.9	42.9	
Total Expenditure	701.7	734.2	-4.4	386.3	81.6	
EBITDA	63.0	54.3	16.1	21.6	191.8	
EBITDA Margin (%)	8.2	6.9	136 bps	5.3	295 bps	Higher gross margin help drive overall EBITDA margin
Depreciation	23.5	21.5	9.6	23.2	1.5	
Interest	8.6	10.5	-18.2	11.7	-26.2	
Exceptional items						
PBT	39.9	24.5	62.9	-0.6	LP	
Total Tax	12.0	-0.3	NM	-3.4	-448.7	
PAT	27.9	24.8	12.4	2.8	881.1	Improved margin and other income along with lower interest outgo help drive PAT growth during Q3

Key Metrics

RAC	413.0	431.0	-4.2	147.0	181.0	Demand pick-up from tier II, III cities on a QoQ basis helped in a further recovery on RAC segment revenue
Component & Mobile Applications	351.7	357.4	-1.6	260.9	34.8	Recovery in non AC component business faster compared to AC business led by addition of new customers

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ crore	FY21E			FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Revenue	3,297.4	3,277.1	(0.6)	5,402.7	5,375.8	(0.5)	6,727.5	6,695.2	(0.5)	Marginal change in estimate considering current quarter performance
EBITDA	211.0	232.7	10.3	470.0	440.8	(6.2)	565.1	582.5	3.1	
EBITDA Margin (%)	6.4	7.1	70bps	8.7	8.2	-50bps	8.4	8.7	30bps	
PAT	79.9	100.5	25.8	253.0	229.8	(9.2)	303.4	328.7	8.3	Better-than-expected recovery in margin leads to change in estimate for FY21E bottomline estimates
EPS (₹)*	23.7	29.8	25.8	75.1	68.2	(9.2)	90.0	97.6	8.3	

Source: Company, ICICI Direct Research; * increased no. of shares due to QIP

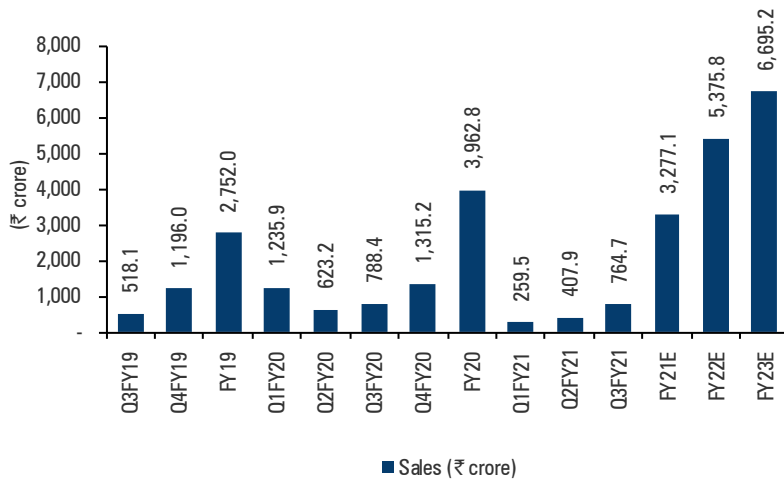
Exhibit 3: Assumptions

(%)	Current				Earlier			Comments
	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
RAC	39.9	(18.8)	67.3	24.7	(18.8)	67.3	24.7	We believe incremental business opportunity due to import ban on RAC would help drive RAC revenue at CAGR of ~19% FY20-23E
Component & Mobile Applications	51.0	(14.9)	59.1	24.3	(13.6)	58.7	24.2	Slow recovery in 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

Source: Company, ICICI Direct Research

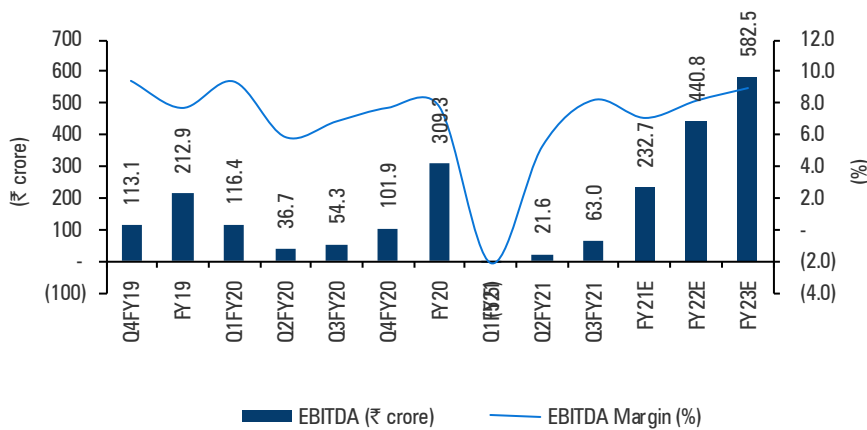
Financial story in charts

Exhibit 4: Gradual recovery in revenue from H2FY21E



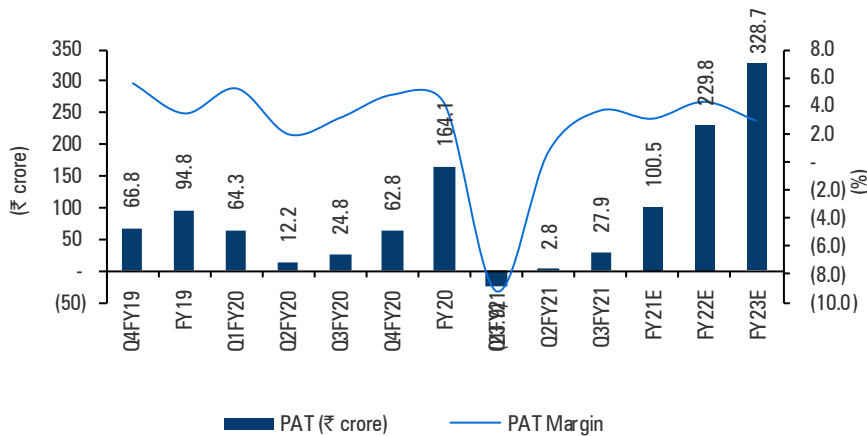
Source: Company, ICICI Direct Research

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 Q3FY21. Expect a strong Q4FY21
- Post import restrictions, the company signed six new clients under refrigerant gas filling job works
- Expect draft notification of PLI for RAC industry by the end of February 2021
- Net debt position as on December 2020 was lower at ₹ 263 crore as against ₹ 343 crore December 2019
- Currently export contributes less than 1% in revenue. The company expects a significant rise in export revenues (10-15% of revenue in the next two to three years), going forward, under China+1 strategy of multinational companies
- The two new plants in Pune (Maharashtra) and Sri City (Andhra Pradesh) are expected to commence operations from Q4FY22. Pune plant will have 1 million units of RAC manufacturing capacity
- A capex has been planned of ₹ 300 crore for FY22E-23E
- Sidwal (the company's mobility business arm) won two to three orders worth ₹ 120 crore from metro projects. The total order book of Sidwal was at ₹ 400 crore, which will be executed over the next two years
- Currently non AC business (components for washing machines and refrigerators) contributes ~20% in topline
- The company has also signed new clients in washing machines and refrigerators component business. For washing machines, the company manufactures tub, PCBs, injection mouldings and motors (all together contributes ~25% of washing machines costs)
- For refrigerators, Amber manufactures sheet metal, case liners and electronics (which is also 22-25% of per units costs of refrigerators)
- For the component business, the company has signed new clients like Voltas-Beko and Blue Star
- Amber is also planning joint ventures in the compressor making business. It requires a capex of ~ ₹ 250 crore for 2 million capacities of compressors
- The commencement of new compressor plant of GMCC (which was likely to commence operation in Q2FY21) has been delayed due to Covid-19
- The company has taken price hikes in order to offset rising input prices

Financial summary

Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Revenue	3,962.8	3,277.1	5,375.8	6,695.2	
Growth (%)	44.0	-17.3	64.0	24.5	
Expenses					
Raw material expens	3,324.7	2,703.6	4,461.9	5,537.0	
Employee expenses	106.3	104.9	118.3	147.3	
Other expenses	245.5	235.9	354.8	428.5	
Total Operating Exp	3,653.5	3,044.4	4,935.0	6,112.8	
EBITDA	309.3	232.7	440.8	582.5	
Growth (%)	45.3	-24.8	89.5	32.1	
Depreciation	84.8	93.4	109.7	127.2	
Interest	41.9	43.2	34.7	29.2	
Other Income	8.2	32.8	10.8	13.4	
PBT	190.7	128.9	307.2	439.5	
Total Tax	26.6	28.3	77.4	110.7	
PAT	164.1	100.5	229.8	328.7	

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	164.1	100.5	229.8	328.7	
Add: Depreciation	84.8	93.4	109.7	127.2	
(Inc)/dec in Current Assets	-176.3	-265.7	-622.4	-617.1	
Inc/(dec) in CL and Provisions	211.5	-56.8	557.3	436.0	
Others	41.9	43.2	34.7	29.2	
CF from operating activities	326.1	-85.3	309.1	304.1	
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-303.9	-100.0	-150.0	-150.0	
Others	27.4	0.2	-1.3	-0.8	
CF from investing activities	-276.5	-99.8	-151.3	-150.8	
Issue/(Buy back) of Equity	0.0	2.2	0.0	0.0	
Inc/(dec) in loan funds	89.8	20.0	-50.0	-50.0	
Dividend paid & dividend tax	-12.1	-4.0	-8.1	-8.1	
Others	-51.7	271.3	-34.7	-29.2	
CF from financing activities	26.0	289.5	-92.8	-87.3	
Net Cash flow	75.6	104.4	65.0	66.0	
Opening Cash	44.7	120.3	224.7	289.6	
Closing Cash	120.3	224.7	289.6	355.6	

Source: Company, ICICI Direct Research

Exhibit 8: 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	1,507.9	1,729.6	2,050.2	
Total Shareholders funds	1,128.4	1,541.6	1,763.3	2,083.9	
Total Debt	320.5	340.5	290.5	240.5	
Other non current liabilities	178.0	178.0	178.0	178.0	
Total Liabilities	1,626.9	2,060.1	2,231.8	2,502.4	
Assets					
Gross Block	1,357.2	1,457.2	1,607.2	1,757.2	
Less: Acc Depreciation	365.0	458.4	568.1	695.3	
Total Fixed Assets	995.3	1,001.9	1,042.3	1,065.0	
Goodwill	122.3	122.3	122.3	122.3	
Inventory	655.7	718.3	1,031.0	1,284.0	
Debtors	854.2	1,077.4	1,325.5	1,650.9	
Loans and Advances	29.3	24.2	39.8	49.5	
Other CA	86.8	71.8	117.8	146.7	
Cash	120.3	224.7	289.6	355.6	
Total Current Assets	1,746.3	2,116.3	2,803.7	3,486.7	
Creditors	1,106.8	1,077.4	1,546.5	1,926.0	
Provisions	12.8	12.4	17.8	22.2	
Other CL	156.4	129.3	212.2	264.2	
Total Current Liabilities	1,275.9	1,219.1	1,776.4	2,212.5	
Net current assets	470.4	897.2	1,027.2	1,274.2	
Other non current assets	38.9	38.7	40.0	40.9	
Total Assets	1,626.9	2,060.1	2,231.8	2,502.4	

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per share data (₹)					
EPS	52.2	29.8	68.2	97.6	
Cash EPS	79.2	57.6	100.7	135.3	
BV	358.8	457.5	523.3	618.5	
DPS	3.8	1.2	2.4	2.4	
Operating Ratios (%)					
EBITDA Margin	7.8	7.1	8.2	8.7	
PAT Margin	4.1	3.1	4.3	4.9	
Asset Turnover	2.9	2.2	3.3	3.8	
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	6.5	13.0	15.8	
RoCE	14.3	8.4	15.3	18.7	
RoIC	15.0	7.7	16.7	20.3	
Valuation Ratios (x)					
P/E	50.2	87.8	38.4	26.9	
EV / EBITDA	27.3	35.9	18.7	14.0	
EV / Net Sales	2.1	2.6	1.5	1.2	
Market Cap / Sales	2.1	2.5	1.5	1.2	
Price to Book Value	7.3	5.7	5.0	4.2	
Solvency Ratios					
Debt / Equity	0.3	0.2	0.2	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 10: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)			
	(₹)	TP(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,447	3,010	Hold	2,34,667	32.8	39.9	46.3	74.5	61.3	52.8	52.7	43.8	37.5	26.7	28.6	28.5	31.1	33.4	34.0			
Astral Polytechnik (ASTPOL)	1,723	1,260	Hold	25,959	20.7	25.5	27.8	83.1	67.6	62.0	41.8	35.8	33.1	22.3	24.5	24.1	17.3	19.1	18.6			
Amber Enterprises (AMBEN)	2,621	3,015	Buy	8,242	29.8	68.2	97.6	87.8	38.4	26.9	35.9	18.7	14.0	8.4	15.3	18.7	6.5	13.0	15.8			
Bajaj Electricals (BAJELE)	740	585	Buy	8,413	11.8	17.1	23.0	NM	43.4	32.1	26.3	20.2	15.9	10.8	14.7	18.6	8.3	13.0	15.4			
Berger Paints (BERPAI)	721	675	Hold	70,024	7.8	9.7	11.7	92.7	74.7	61.4	60.3	50.8	43.0	26.9	30.3	34.0	23.8	25.7	27.9			
Crompton Greaves(CROGR)	416	480	Buy	26,083	7.9	9.5	12.0	52.3	43.7	34.6	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1			
EPL (ESSPRO)	245	280	Hold	7,730	8.0	8.9	11.2	30.4	27.4	21.9	13.0	12.3	10.3	18.7	18.7	21.2	16.0	15.6	17.4			
Havells India (HAVIND)	1,062	1,255	Hold	66,258	16.1	17.8	22.9	66.0	59.7	46.3	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7			
Kansai Nerolac (KANNER)	581	605	Buy	31,311	10.3	12.0	14.0	56.6	48.2	41.5	36.4	32.1	27.9	18.4	19.6	20.5	14.3	15.1	15.7			
Pidilite Industries (PIDIND)	1,716	1,920	Buy	87,138	22.1	28.2	32.9	77.5	60.9	52.2	50.0	39.9	34.7	28.4	31.5	32.4	22.8	25.3	25.9			
Polycab India (POLI)	1,250	1,385	Buy	18,610	57.9	67.2	79.7	21.6	18.6	15.7	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1			
Supreme Indus (SUPIND)	1,798	2,010	Buy	22,839	62.2	50.0	58.0	28.9	36.0	31.0	19.5	21.4	18.6	27.3	21.7	23.2	28.4	20.4	20.9			
Symphony (SYMLIM)	1,012	1,090	Hold	7,080	13.1	29.8	40.0	77.0	34.0	25.3	61.3	26.7	19.7	16.7	35.7	41.8	17.1	34.1	38.7			
Time Techno (TIMTEC)	53	43	Hold	1,199	7.5	4.0	9.1	7.1	13.3	5.8	3.1	4.3	2.8	12.5	8.0	13.2	9.3	5.0	10.7			
V-Guard Ind (VGUARD)	231	210	Buy	9,893	3.7	5.3	6.2	62.7	43.4	37.2	34.5	25.4	21.6	20.1	25.3	26.9	15.1	19.5	20.8			
Voltas Ltd (VOLTAS)	938	845	Hold	31,023	12.3	22.6	29.8	76.2	41.5	31.5	57.7	31.1	25.2	12.8	20.1	21.9	9.1	15.3	17.5			

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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