Sharekhan by BNP PARIBAS

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Amber Enterprises

Strong Q3 despite inflationary headwinds

Capital Goods	Sharekhan code: AMBER		
Reco/View: Buy	↔	CMP: Rs. 3,608	Price Target: Rs. 4,300 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 29.63
Updated Jan 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

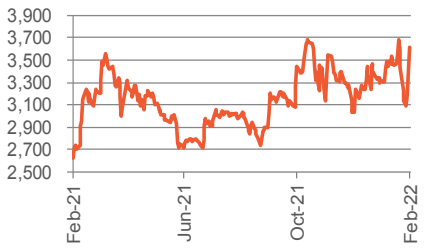
Company details

Market cap:	Rs. 12,157 cr
52-week high/low:	Rs. 3,88 / 2,501
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	29.1
DII	9.3
Others	21.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.2	15.0	19.7	37.6
Relative to Sensex	11.1	18.5	10.1	18.3

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on the stock with a revised PT of Rs. 4300, given its strong net earnings growth outlook ahead.
- The company reported strong performance for Q3FY2022 led by high growth in components business along with highlighting its ability to pass on increased input costs to end consumers.
- Company expects strong Q4 with FY2022 AC volumes expected to touch 3mn units versus 1.1mn in 9MFY2022. The OPM are expected to sustain.
- PLI schemes would help Amber strengthen domestic presence along with strong export opportunities over the next 3-4 years.

Amber Enterprises Ltd (AEL) reported better than expected performance for Q3FY2022. Consolidated revenues grew by 27% y-o-y at Rs. 974 crore with components and mobile applications reporting 70% y-o-y growth at Rs. 598 crore while RAC revenues declined by 9% y-o-y at Rs. 376 crore. OPM at 7.6% (down 69 bps y-o-y) was better than estimates, as it was able to pass on the increase in input costs to customers. Consequently, operating/net profit grew by 17%/19% y-o-y to Rs. 74 crore/Rs. 32 crore, respectively. The company expects RAC volume to reach 3mn units in FY2022 despite weak volumes during 9MFY2022 (1.1mn units) led by strong demand growth. It expects to outnumber industry growth rate and reach pre-pandemic levels in FY2022 as against industry reaching it in FY2023.

Key positives

- Strong y-o-y revenue growth in components & mobile applications along with overall OPM improving q-o-q despite commodity inflation and supply chain issues.
- Revenues from Sidwal/PICL/EVER/ILJIN grew by 93%/129%/91%/35% y-o-y respectively.
- Acquired 73% stake in AmberPR (erstwhile Pasio India) which has leadership positioning in cross flow fans and having much higher OPM as compared to consolidated operations.

Key negatives

- AC volumes declined by 27% y-o-y.
- ILJIN OPM remained under pressure y-o-y.

Management Commentary

- The company expects to reach close to 3mn units in RAC for FY2022 despite volumes of 1.1mn till 9MFY2022. It is confident of maintaining OPM going ahead.
- The company converted two gas charging customers to fully built units in FY2022 and would convert three more in FY2023.
- The RAC industry volumes declined from pre-COVID 7.2mn units to 5.2mn in FY2021 but is expected to improve to 6.2-6.5mn in FY2022 and reach pre-pandemic levels by FY2023 clocking 7.5-8mn units.
- Capex spend of Rs. 375 crore in FY2022 and Rs. 250-275 crore in FY2023.

Revision in estimates – We have largely retained our estimates for FY2022-FY2024.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 4,300: Amber is well-placed to capture incremental demand accruing from the indigenisation of both fully built-up units and components ecosystem development through lesser imports and it would be a strong beneficiary from the PLI schemes for AC components. 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. Overall, we believe the company has a long runway for growth with multiple growth drivers across product verticals. Amber currently trades at a P/E ratio of 45x its FY2024E earnings, which we believe leaves further room for an upside. Hence, we retain a Buy on the stock with a revised price target (PT) of Rs. 4,300.

Key Risks

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.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Net Sales	3,031	4,089	5,358	6,793
Operating Profit Margin (%)	7.3	6.8	7.3	7.3
PAT	82	122	188	268
Growth (%)	(48)	50	53	43
EPS (Rs.)	24.2	36.3	55.7	79.6
P/E (x)	149.0	99.4	64.8	45.3
EV/EBITDA (x)	55.5	43.4	31.5	24.9
RoCE (%)	8.6	9.6	13.4	16.5
RoE (%)	6.0	7.4	10.3	13.2

Source: Company; Sharekhan estimates

Strong performance despite increased input costs

Amber reported consolidated net revenues growth of 27.4% y-o-y (up 65.8% q-o-q) at Rs. 974 crore which was higher than our estimate. The revenues from components and mobility application rose 70% y-o-y to Rs. 598 crore while RAC revenues declined by 9% y-o-y to Rs. 376 crore. The revenues from key subsidiaries was as follows. Sidwal (up 93% y-o-y), PICL (up 129% y-o-y), IL JIN (up 35% y-o-y) and EVER (up 91% y-o-y). The OPM surprised positively at 7.6% (down 69bps y-o-y, up 172bps q-o-q) which was higher than our estimate of 6.9%. The beat on OPM was led by higher-than-expected revenues which led to better absorption of overheads. Operating profit grew by 16.8% y-o-y (up 115% q-o-q) which was higher than our estimate. Strong revenue growth and lower effective tax rate (23.1% Vs 30.1% in Q3FY2021) led to 19% y-o-y rise (up 332% q-o-q) in net profit at Rs. 32 crore (which was higher than our estimate).

Expect demand environment to remain strong

The management expects RAC demand to remain strong with the industry growth rate reverting to 13-14% p.a. from FY2023. It expects to outpace industry growth rate by 3-4%. Demand is also aided by the import ban on ACs with refrigerants leading to conversion of customers from gas filling to full manufacturing of ACs. The company expects to reach close to 3mn units in RAC for FY2022 despite volumes of 1.1mn till 9MFY2022. The optimism is driven by the industry reverting to normalised demand from earlier disruptions like BEE rating changes. The company is confident of maintaining OPM. In RAC, localisation, Make in India, PLI incentives, Work from Home is expected to drive demand. The company is now present in South with its Sri city unit getting operational by July-August 2022. In the components segment, the company would be manufacturing sheet metal components and heat exchangers for Samsung and components for refrigerators and washing machines for Voltas Beko. In Electronics (ILJIN and EVER), it has added capabilities in PCBAs for washing machines and inverter ACs. In mobility application (Sidwal), it has strong order book of Rs. 450 crores and customers like Alstom and Bombardier. In Motor development (PICL), it expects to double the revenues with margin expansion over two years. Overall, it targets to grow its EBITDA by 25% by FY2025.

Conference call highlights:

- **Q3 performance:** The consumer demand remained good although rising raw material costs and supply chain issues continued. However, the AC volumes have declined by 27% y-o-y in Q3FY2022. The company has been able to maintain gross margins and passed on commodity price increase due to early negotiations with customers. The company converted two gas charging customers to fully built units in FY2022 and would convert three in FY2023.
- **Guidance:** The company expects to reach close to 3mn units in RAC for FY2022 despite volumes of 1.1mn till 9MFY2022. The optimism is driven by the industry reverting to normalised demand from earlier disruptions like BEE rating changes. The company is confident of maintaining OPM.
- **AC industry outlook:** The RAC industry volumes declined from pre-COVID 7.2mn units to 5.2mn in FY2021 but is expected to improve to 6.2-6.5mn in FY2022 and reach pre-pandemic levels by FY2023 clocking 7.5-8mn units.
- **Segment-wise outlook:** In RAC, localisation, Make in India, PLI incentives, Work from Home is expected to drive demand. The company is now present in South with its Sri city unit getting operational by July-August 2022. The company has complete product line along with pan-India reach to gain market share and outnumber industry growth rate going ahead. In components, the company would be manufacturing sheet metal components and heat exchangers for Samsung and components for refrigerators and washing machines for Voltas Beko. In Electronics (ILJIN and EVER), it has added capabilities in PCBAs for washing machines and inverter ACs. In mobility application (Sidwal), it has strong order book of Rs. 450 crores and customers like Alstom and Bombardier. In Motor development (PICL), it expects to double the revenues with margin expansion over two years. Overall, it targets to grow its EBITDA by 25% by FY2025.

- **Acquisiton:** The company acquired 73% stake in AmberPR (erstwhile Paiso India) which has a leadership positioning in cross flow fans. It has Rs. 51 crore revenues last year while it is expected to generate Rs. 90 crore this year.
- **PLI:** Amber earlier received PLI approval for AC components with threshold investment limit of Rs. 200 crores. Its subsidiary ILJIN, manufacturer of lower value intermediaries of ACs received PLI approval with threshold investment limit of Rs. 100 crores.
- **Exports:** The company's products for US are under prototype. It would take another one and half to two years before it can start production for exports. For the Middle East, the reliability cycle is going on and production is expected to start in one year for exports.

Quarterly consolidated results **Rs cr**

Particulars	Q3FY2022	Q3FY2021	YoY (%)	Q2FY2022	QoQ (%)
Total Income	**974.3**	**764.7**	**27.4**	**587.5**	**65.8**
EBITDA	**73.6**	**63.0**	**16.8**	**34.3**	**114.6**
Depreciation	27.1	23.5	15.1	26.2	3.2
Interest	12.3	8.6	43.2	6.4	92.5
Other Income	8.6	9.0	-4.0	8.1	5.8
PBT	**42.8**	**39.9**	**7.4**	**9.8**	**336.6**
Total Tax	9.9	12.0	-17.5	1.9	414.8
PAT before minority interest	32.9	27.9	18.2	7.9	317.5
Minority Interest	-0.8	-1.0	-13.8	-0.5	79.4
Adjusted PAT	**32.1**	**26.9**	**19.3**	**7.4**	**332.2**
Adjusted EPS	9.5	8.0	19.3	2.2	332.2
Margins			Bps		Bps
OPM	7.6	8.2	-69	5.8	172
NPM	3.3	3.5	-22	1.3	203
Tax Rate	23.1	30.1	-697	19.6	351

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector outlook – 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 the Make in India initiative. An enhanced capacity and wider product offerings and customer penetration are likely to drive the company's performance in addition to a healthy demand outlook for the electronics outsourcing industry.

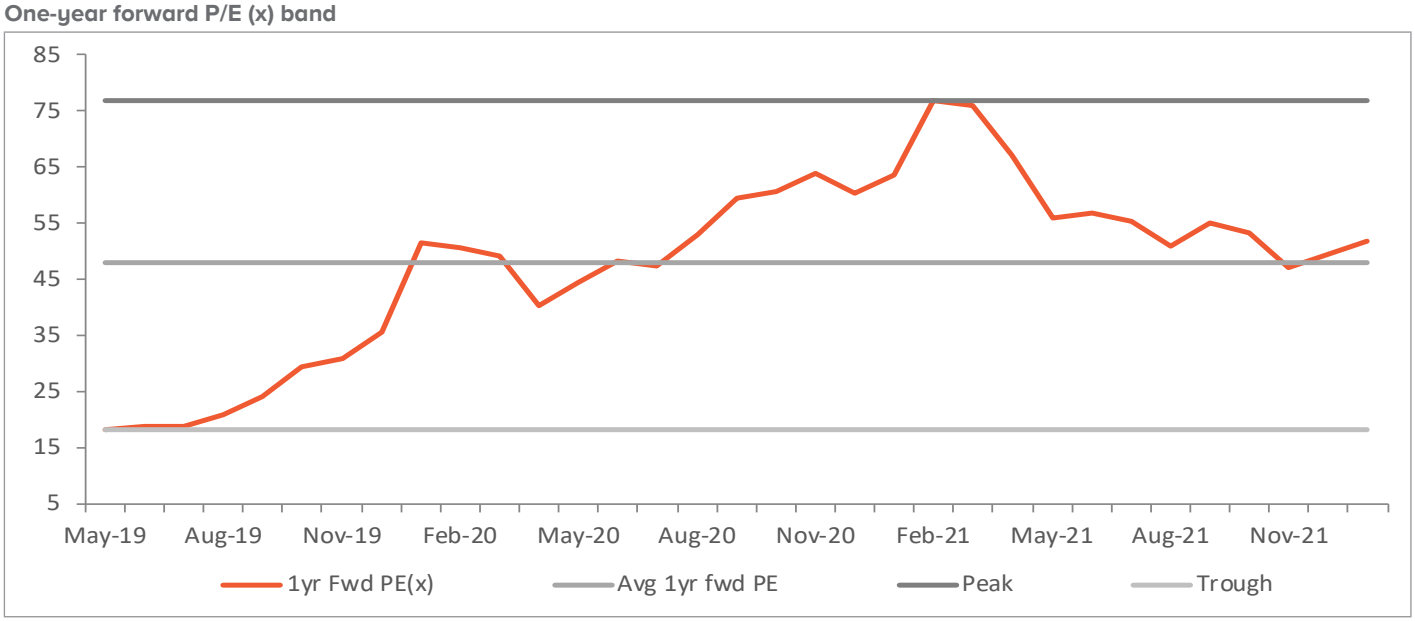
■ Company outlook – Long runway for growth

Amber is well-placed to capture incremental demand accruing from the indigenisation of both fully built-up units and components ecosystem development through reduced imports and strong beneficiary from recently announced PLI schemes for AC and components. The company has lined up capex for two greenfield projects, one in Pune and other in 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. Overall, the outlook remains optimistic with the management confident of capturing opportunities with better volumes offtakes despite the short-term challenges posed by second wave of COVID-19.

■ Valuation – Retain Buy with a revised PT of Rs. 4,300

Amber is well-placed to capture incremental demand accruing from the indigenisation of both fully built-up units and components ecosystem development through lesser imports and it would be a strong beneficiary from the PLI schemes for AC components. 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. Overall, we believe the company has a long runway for growth with multiple growth drivers across product verticals. Amber currently trades at a P/E ratio of 45x its FY2024E earnings, which we believe leaves further room for an upside. Hence, we retain a Buy on the stock with a revised price target (PT) of Rs. 4,300.

One-year forward P/E (x) band



Source: Sharekhan Research

About the company

Incorporated in 1990, Amber has emerged as a market leader in Indian Room AC OEM/ODM industry. The company's comprehensive product portfolio includes Room AC (Indoor & Outdoor units as well as window ACs), reliable critical components, which has a long approval cycle. The company is one of the largest manufacturers & 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. Further, Amber remains strong beneficiary from recently announced PLI schemes for AC and components. 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	20.9
2	Edelweiss Alternative Investment Opportunities Trust	3.4
3	Goldman Sachs Funds - Goldman Sachs Emerging Market	2.2
4	Abu Dhabi Investment Authority - Behave	2.1
5	Icici Prudential Life Insurance Company Limited	2.1
6	Icici Prudential Smallcap Fund	1.7
7	Kotak Funds - India Midcap Fund	1.6
8	Goldman Sachs India Limited	1.6
9	Akash Bhanshali	1.6
10	L&T Mutual Fund Trustee Limited-L&T Emerging Business	1.5

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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by BNP PARIBAS

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