

Components business drives topline...

About the stock: Amber is a leading solution provider for air conditioner OEM/ODM industry in India.

- The company has a product portfolio including RACs, RAC components and other non AC components
- Derives ~62% of its revenues from RACs and the rest from components and mobility applications

Q3FY22 Results: Favourable base & traction in component business drives topline.

- Revenue up 27% YoY to ₹ 974 crore led by 70% growth in component & mobility business to ₹ 598 crore. However, RAC segment revenue declined 9% due to 27% drop in volumes amid fear of lockdown and change in BEE norms
- Gross margins were intact supported by price hikes. Higher fixed costs weighed on overall EBITDA margin, which declined 70 bps YoY to 7.6%
- PAT up 18% YoY to ~₹ 33 crore, tracking higher sales in Q3

What should investors do? Amber's share price has grown by ~3x over the past four years (from ~₹ 1226 in February 2018 to ~₹ 3608 levels in January 2022).

- We maintain our BUY rating on the stock

Target Price and Valuation: We value Amber at ₹ 4330 i.e. 41x P/E on FY24E EPS

Key triggers for future price performance:

- The company is a major beneficiary of the PLI scheme provided by Govt and has two new facilities approved under PLI with the AC component business contributing ~38% to its topline
- Import ban on ACs with refrigerants provide Amber the opportunity to gain market share. The company plans to increase manufacturing capacity by 35% in the next two years to ~6.2 million (mn) units
- New export opportunities in US and Middle East

Alternate Stock Idea: We also like Dixon Technologies in our coverage universe.

- Dixon is India's leading electronic manufacturing (EMS) provider and is one of the main beneficiaries of the PLI scheme introduced by government
- BUY with a target price of ₹ 5700



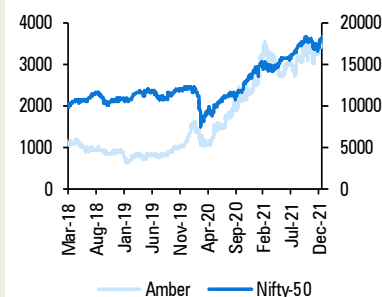
Particulars

Particular	Amount
Market Cap (₹ Crore)	12,156.7
Total Debt (FY21) (₹ Crore)	349.5
Cash & Inv (FY21) (₹ Crore)	290.0
EV (₹ Crore)	12,216.2
52 week H/L	3788/ 2084
Equity capital (₹ Crore)	31.4
Face value (₹)	10.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	40.3	40.3	40.3	40.3	40.3
FII	28.1	28.1	28.1	29.0	29.1
DII	8.0	7.6	7.2	8.9	9.3
Others	23.6	24.0	24.4	21.8	21.4

Price Chart



Recent event & key risks

- Key Risk:** (i) Climate change causing shorter summers (ii) Delay in passing on high input prices

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	3 Year CAGR (FY18-21)	FY22E	FY23E	FY24E	3 Year (CAGR 21-24E)
Net sales	2752.0	3962.8	3030.5	13%	4395.4	5698.9	7220.8	33.6
EBITDA	212.9	309.3	220.3	6%	316.9	467.3	595.7	39.3
EBITDA Margin(%)	7.7	7.8	7.3		7.2	8.2	8.2	
Net Profit	94.8	164.1	83.3	10%	153.9	257.3	352.0	61.7
EPS (₹)	30.1	52.2	24.7		45.7	76.4	104.5	
P/E(x)	119.7	69.1	146.0		79.0	47.2	34.5	
RoE (%)	9.6	14.5	5.2		9.2	13.4	15.6	
RoCE (%)	12.3	14.3	7.7		11.1	15.2	18.0	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results:

- Revenue grew ~27% YoY to ~₹ 974 crore, supported by 70% growth in the components & mobility segments to ₹ 598 crore. RAC segment revenues came in lower by 9% YoY to ₹ 376 crore mainly due to 28% drop in RAC volumes amid fear of lockdown and change in BEE norms
- Subsidiaries reported strong revenue growth in Q3FY22. PICL, ILJIN, EVER, Sidwal reported revenue growth of 129%, 36%, 89% and 95% YoY to ₹ 80 crore, ₹ 123 crore, ₹ 63 crore, ₹ 85 crore, respectively. Newly acquired subsidiary AmberPR reported revenue of ₹ 12 crore in Q3FY22
- Price hikes during the period were successfully passed on to end customers, which helped the company to maintain its gross margin. The new capacities in Gujarat, Tamil Nadu and Maharashtra have started operations. Higher fixed costs associated with the new plants led to a marginal decline in EBITDA margin by 70 bps YoY to 7.6%
- PAT increased 18% YoY to ₹ 33 crore mainly tracking higher sales

Q3FY22 Earnings Conference Call highlights:

- RAC industry volume likely to increase to 6.2 mn units in FY22E and to 8 mn by FY23E. This implies ~24% volume CAGR in FY21-23E. Strong growth is attributable to change in consumer behaviour due to increased work from home culture and strong housing demand
- The company sees improved demand traction from customers amid reduced risk of third wave and is confident of achieving 3 mn RAC unit volume (i.e. pre-Covid level of volume) in FY22. This implies ~70% YoY growth in Q4FY22
- The company has added two customers in the RAC segment and is in discussions with three other clients for RAC ODM
- On the component side, the company has added Samsung for the supply of heat exchanger & sheet metal. Under the non AC category, the company added 'VoltasBeko' (for the supply of refrigerator & washing machines components) and 'boAt' for hearable and wearable components
- The company expects subsidiary revenues to double in the next two to three years
- Product approval process is on track for export to US markets. Expect a meaningful export traction from FY24 onwards
- Sidwal's order book is ~₹ 450 crore. The company sees a significant opportunity in the mobility space
- The EBITDA margin is likely to increase with improved operating leverage, going forward
- Capex of ₹ 375 crore & ₹ 250 crores planned for FY22E & FY23E, respectively

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Dixon	26,156	6448	11704	18270	23137	4	4	4	4	160	213	466	658	24	27	40	40	22	26	40	38	162	123	56	40
Amber	12,157	3031	4395	5699	7221	7	7	8	8	83	154	257	352	8	11	15	18	5	9	13	16	146	79	47	35

Source: ICICI Direct Research

We like Amber Enterprise due to its market leadership position in the ODM business of RAC manufacturing. The company has been continuously adding new customers under its RAC and non RAC business. In the RAC business, two new customers have been added while under the non RAC business prominent clients such as VoltasBeko and boat were added. Diversification towards non RAC business will help the company to reduce dependency on single product segment thereby reducing earnings volatility. This, along with export opportunities in the Middle East will add to overall revenue growth, going forward. We model revenue, PAT CAGR of 34%, 62%, respectively, for FY21-23E. We value the company at 41x FY24E EPS and revise our target price to ₹ 4330/share. We maintain our BUY rating on the stock.

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Revenue	974.3	764.7	27.4	587.5	65.8	Favourable base and strong growth in component business drives overall growth
Other Income	8.6	9.0	-4.0	8.1	6	
Raw Material Exp	796.2	623.1	27.8	474.4	67.9	Price hikes helped partially negate the sharp rise in raw material cost YoY
Employee cost	39.7	27.3	45.4	35.3	12.3	
Other Expenditure	64.8	51.3	26.4	43.5	48.9	Higher fixed cost is attributable to start of new capacities
Total Expenditure	900.7	701.7	28.4	553.2	62.8	
EBITDA	73.6	63.0	16.8	34.3	114.6	
EBITDA Margin (%)	7.6	8.2	-69 bps	5.8	172 bps	Marginal decline in EBITDA margin YoY is largely due to higher fixed costs
Depreciation	27.1	23.5	15.1	26.2	3.2	
Interest	12.3	8.6	43.2	6.4	92.5	
Exceptional items						
PBT	42.8	39.9	7.4	9.8	336.8	
Total Tax	9.9	12.0	-17.5	1.9	414.8	
PAT	32.9	27.9	18.2	7.9	317.7	PAT growth is attributable to higher topline growth during Q3FY22

Key Metrics

RAC	376.0	413.0	-9.0	219.0	71.7	Volume dipped by 28% YoY mainly due to lower offtake amid fear of lockdown, change in BEE norms
Component & Mobile Applications	598.3	351.7	70.1	368.5	62.4	Favourable base, consolidation of new business (AmberPR) and improved demand for both components and Sidwal drove segment revenue growth

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ crore)	FY22E			FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Revenue	4,271.4	4,395.4	2.9	5,945.0	5,698.9	(4.1)	7,233.3	7,220.8	(0.2)	We slightly revise our revenue estimate upside considering strong order book of RAC for upcoming quarters. We model our revenue CAGR of 34% for FY21-24E
EBITDA	294.7	316.9	7.5	493.4	467.3	(5.3)	622.1	595.7	(4.2)	
EBITDA Margin (%)	6.9	7.2	31bps	8.3	8.2	-10bps	8.6	8.2	-35bps	We believe higher operating leverage and improved product mix to help maintain margin at elevated level
PAT	148.3	153.9	3.8	277.1	257.3	(7.1)	360.3	352.0	(2.3)	
EPS (₹)	44.0	45.7	3.8	82.2	76.4	(7.1)	106.9	104.5	(2.3)	

Source: ICICI Direct Research

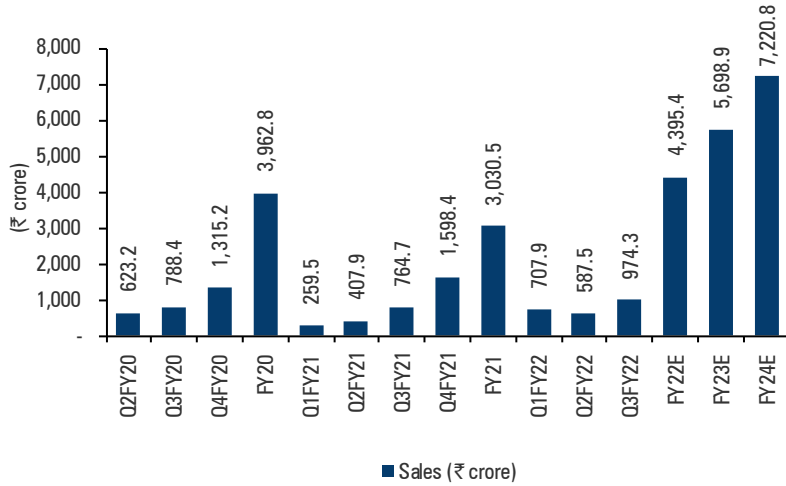
Exhibit 4: Assumptions

(%)	Current				Earlier				Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	FY24E	FY24E	
RAC	39.9	(30.8)	55.0	27.0	24.0	52.0	40.9	20.0	We believe favourable base and incremental business opportunity due to import ban on RAC would help drive RAC revenue at CAGR of 35% FY21-24E
Component & Mobile Applications	51.0	(12.0)	32.7	33.5	30.4	27.2	36.7	24.2	A favourable base, healthy order book of Sidwal and client additions in the component business will help drive cement revenue CAGR at ~32% in FY21-24E

Source: ICICI Direct Research

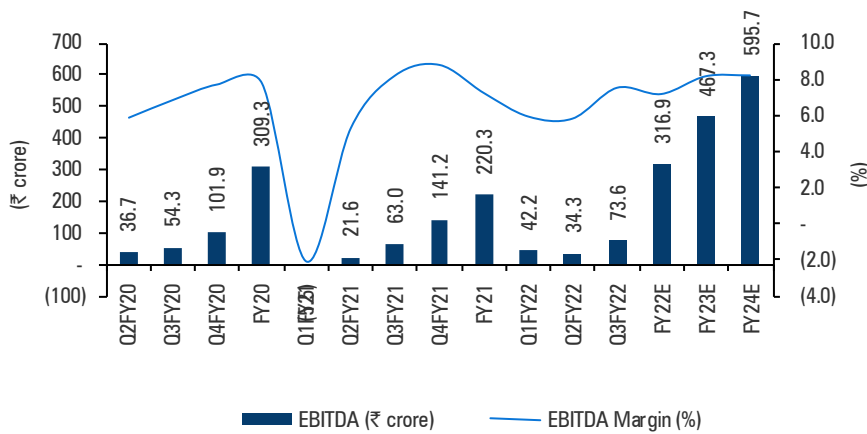
Financial story in charts

Exhibit 5: Revenue trend



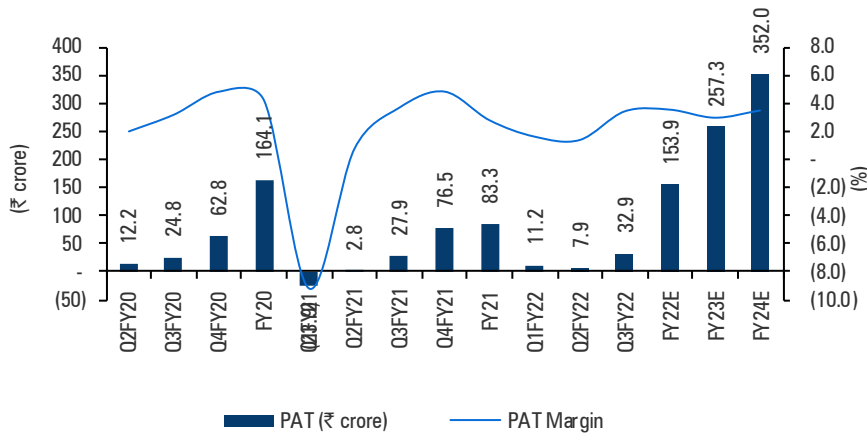
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 7: PAT & PAT margin movement



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Revenue	3,030.5	4,395.4	5,698.9	7,220.8
Growth (%)	10.1	45.0	29.7	26.7
Expenses				
Raw material expens	2,529.0	3,665.7	4,752.9	6,065.5
Employee expenses	102.1	149.0	171.0	184.1
Other expenses	194.7	263.7	307.7	375.5
Total Operating Exp	2,810.2	4,078.5	5,231.6	6,625.1
EBITDA	220.3	316.9	467.3	595.7
Growth (%)	3.5	43.9	47.5	27.5
Depreciation	92.3	105.5	119.7	133.6
Interest	41.0	43.4	30.0	26.0
Other Income	33.1	33.0	17.1	21.7
PBT	120.1	200.9	334.7	457.8
Total Tax	36.9	47.0	77.3	105.8
PAT	83.3	153.9	257.3	352.0

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	83.3	153.9	257.3	352.0
Add: Depreciation	92.3	105.5	119.7	133.6
(Inc)/dec in Current Assets	-237.7	-453.8	-250.1	-586.8
Inc/(dec) in CL and Provisions	227.9	389.9	167.1	390.4
Others	41.0	43.4	30.0	26.0
CF from operating activities	206.7	238.9	324.0	315.2
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-162.0	-375.0	-250.0	-150.0
Others	-255.5	60.5	-45.5	-53.1
CF from investing activities	-417.5	-314.5	-295.5	-203.1
Issue/(Buy back) of Equity	2.2	0.0	0.0	0.0
Inc/(dec) in loan funds	29.0	51.0	-50.0	-50.0
Dividend paid & dividend tax	-4.0	-8.1	-8.1	-8.1
Others	353.3	-123.2	-30.0	-26.0
CF from financing activities	380.4	-80.3	-88.1	-84.1
Net Cash flow	169.7	-155.9	-59.6	28.0
Opening Cash	120.3	290.0	134.0	74.5
Closing Cash	290.0	134.0	74.5	102.5

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	33.7	33.7	33.7	33.7
Reserve and Surplus	1,570.4	1,636.5	1,885.7	2,229.6
Total Shareholders funds	1,604.1	1,670.2	1,919.4	2,263.3
Total Debt	349.5	400.5	350.5	300.5
Other non current liabilities	129.1	129.1	129.1	129.1
Total Liabilities	2,082.7	2,199.7	2,399.0	2,692.9
Assets				
Gross Block	1,493.6	1,868.6	2,118.6	2,268.6
Less: Acc Depreciation	457.3	562.8	682.5	816.1
Total Fixed Assets	1,065.0	1,334.5	1,464.8	1,481.3
Goodwill	122.3	122.3	122.3	122.3
Inventory	716.3	879.1	1,014.9	1,285.9
Debtors	1,069.0	1,324.6	1,405.2	1,681.6
Loans and Advances	32.1	46.6	60.4	76.6
Other CA	46.3	67.2	87.2	110.4
Cash	290.0	134.0	74.5	102.5
Total Current Assets	2,153.7	2,451.6	2,642.2	3,256.9
Creditors	1,316.9	1,625.7	1,717.5	2,017.9
Provisions	14.1	17.4	18.4	21.6
Other CL	172.8	250.6	324.9	411.6
Total Current Liabilities	1,503.8	1,893.7	2,060.8	2,451.2
Net current assets	649.9	557.9	581.4	805.8
Other non current assets	245.6	185.1	230.5	283.6
Total Assets	2,082.7	2,199.7	2,399.0	2,692.9

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	24.7	45.7	76.4	104.5
Cash EPS	52.1	77.0	111.9	144.1
BV	476.1	495.7	569.7	671.7
DPS	1.2	2.4	2.4	2.4
Operating Ratios (%)				
EBITDA Margin	7.3	7.2	8.2	8.2
PAT Margin	2.7	3.5	4.5	4.9
Asset Turnover	2.0	2.4	2.7	3.2
Inventory Days	86.3	73.0	65.0	65.0
Debtor Days	128.8	110.0	90.0	85.0
Creditor Days	158.6	135.0	110.0	102.0
Return Ratios (%)				
RoE	5.2	9.2	13.4	15.6
RoCE	7.7	11.1	15.2	18.0
RoIC	8.2	10.7	15.3	18.0
Valuation Ratios (x)				
P/E	146.0	79.0	47.2	34.5
EV / EBITDA	55.0	39.2	26.6	20.7
EV / Net Sales	4.0	2.8	2.2	1.7
Market Cap / Sales	4.0	2.8	2.1	1.7
Price to Book Value	7.6	7.3	6.3	5.4
Solvency Ratios				
Debt / Equity	0.2	0.2	0.2	0.1
Current Ratio	1.4	1.4	1.5	1.5
Quick Ratio	0.9	0.9	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct universe (Consumer Discretionary)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	3,152	3,870	Buy	3,02,277	33.4	32.4	46.5	58.2	94.3	97.4	67.8	54.1	61.3	63.2	45.5	36.5	29.6	28.0	35.6	39.4	25.0	23.4	29.9	32.6
Berger Paints (BERPAI)	722	845	Hold	70,121	7.4	7.7	10.1	12.9	97.4	94.2	71.6	55.9	58.8	57.7	45.6	36.3	24.9	25.2	30.9	34.9	21.3	21.0	25.6	28.6
Kansai Nerolac (KANNER)	567	630	Hold	30,557	10.2	9.0	13.3	15.6	55.3	62.8	42.8	36.3	35.8	40.0	28.3	24.0	17.6	15.7	20.8	22.3	13.7	12.1	16.0	16.9
Pidilite Industries (PIDIND)	2,461	2,640	Hold	1,24,970	22.2	23.9	29.8	35.3	111.0	103.0	82.5	69.8	74.1	66.8	55.6	47.5	23.8	22.1	26.3	30.1	20.2	18.6	22.3	25.3
Bajaj Electricals (BAJELE)	1,196	1,280	Buy	13,700	16.5	20.7	32.9	38.3	72.5	57.7	36.3	31.3	46.0	38.3	26.1	23.2	15.1	18.8	24.9	24.1	10.7	14.9	19.7	19.1
Crompton Greaves(CROGR)	425	525	Buy	26,639	9.8	9.0	11.3	13.2	43.2	47.4	37.5	32.1	35.5	34.3	28.5	24.3	34.4	35.9	41.0	42.1	31.9	28.2	32.3	32.8
Havells India (HAVIND)	1,184	1,515	Buy	73,870	16.7	18.5	22.3	28.6	71.1	63.8	53.1	41.5	46.4	43.0	36.0	28.4	24.9	25.5	29.2	35.7	20.1	21.1	24.2	29.4
Polycab India (POLI)	2,475	3,000	Buy	36,907	59.4	55.0	69.2	84.9	41.7	45.0	35.8	29.1	32.4	32.3	23.9	19.6	20.8	18.3	22.2	23.3	17.9	14.5	17.0	18.0
Symphony (SYMLIM)	992	975	Hold	6,940	15.3	18.4	29.0	39.1	64.9	54.0	34.3	25.4	48.6	39.4	25.6	18.8	15.2	20.2	28.5	33.3	14.9	18.0	25.6	29.1
V-Guard Ind (VGUARD)	216	310	Buy	9,251	4.7	5.0	6.9	7.8	45.8	43.5	31.4	27.8	28.8	28.8	22.4	19.6	23.9	23.2	28.2	28.1	16.7	17.6	21.9	21.8
Voltas Ltd (VOLTAS)	1,188	1,375	Hold	39,291	16.0	19.8	25.2	33.3	74.3	59.9	47.1	35.7	60.6	52.6	41.7	34.0	15.0	18.5	20.8	21.8	10.6	13.6	15.4	17.5
Amber Enterprises (AMBER)	3,608	4,330	Buy	12,157	24.7	45.7	76.4	104.5	146.0	79.0	47.2	34.5	55.0	39.2	26.6	20.7	7.7	11.1	15.2	18.0	5.2	9.2	13.4	15.6
Dixon Technologies (DIXTE)	4,407	5,700	Buy	26,156	27.3	35.9	78.5	110.9	161.6	122.6	56.1	39.7	91.3	63.6	35.0	25.8	23.5	27.4	39.9	39.7	21.7	26.4	39.9	38.3
Supreme Indus (SUPIND)	2,056	2,625	Buy	26,117	77.0	72.3	82.3	93.4	26.7	28.5	25.0	22.0	19.7	20.9	18.0	15.7	33.1	26.9	27.0	27.5	30.9	25.6	25.1	25.0
Astral Ltd (ASTPOL)	2,160	2,375	Hold	43,391	20.3	23.3	30.6	38.3	106.3	92.8	70.5	56.4	66.7	59.1	45.9	37.4	27.5	28.1	31.9	33.1	21.5	21.8	24.5	25.3

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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