

Higher input cost drags margins...

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 ~50% of its revenues from RACs and the rest from components and mobility applications

Q4FY22 Results: Component business drove topline, higher input cost dragged margin.

- Revenue was up 21% YoY to ~₹ 1937 crore led by 38% growth in component & mobility business to ₹ 935 crore. RAC segment revenue grew, albeit at a slow pace of 9% YoY to ₹ 1002 crore
- The EBITDA margin declined 236 bps YoY to 6.5% due to higher raw material costs and employee costs (up 44% YoY)
- PAT down 22% YoY to ~₹ 59 crore, tracking lower margin

What should investors do? Amber's share price has appreciated at 24% CAGR over the past four years (from ~₹ 1140 in May 2018 to ~₹ 2710 levels in May 2022).

- We change our rating on stock from BUY to **HOLD**

Target Price and Valuation: We revise our target price to ₹ 3050/share and value Amber at 35x P/E FY24E EPS.

Key triggers for future price performance:

- The AC industry is likely to grow 30% YoY in FY23E supported by a revival in the real estate industry and changing lifestyle. Amber having the largest market share of ~26% (in terms of bills of materials), will be a major beneficiary of increased RAC demand
- With the component business contributing ~50% to its topline, Amber is a major beneficiary of the PLI scheme provided by Gol
- New export opportunities (of components) in the US and Middle East

Alternate Stock Idea: We like Polycab in our coverage universe.

- Polycab is one of the biggest players in the wire & cable industry with organised market share of ~24%. Robust b/s with average RoE, RoCE of 24%, 27%, respectively
- BUY with a target price of ₹ 2850



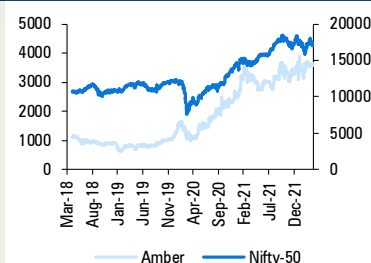
Particulars

Particular	Amount
Market Cap (₹ Crore)	9,131.0
Total Debt (FY22) (₹ Crore)	1,031.8
Cash & Inv (FY22) (₹ Crore)	562.6
EV (₹ Crore)	9,600.2
52 week H/L	4026/ 2084
Equity capital (₹ Crore)	33.7
Face value (₹)	10.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	40.3	40.3	40.3	40.3	40.3	40.3
FII	28.1	28.1	28.1	29.0	29.1	28.1
DII	8.0	7.6	7.2	8.9	9.3	9.2
Others	23.6	24.0	24.4	21.8	21.4	22.4

Price Chart



Recent event & key risks

- Key Risk:** (i) Revival in real estate industry drives strong RAC demand, (ii) delay in passing on high input prices

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22	4 Year CAGR (FY18-22)	FY23E	FY24E	2 Year (CAGR 22-24E)
Net sales	2752.0	3962.8	3030.5	4206.4	15%	5552.9	6917.2	28%
EBITDA	212.9	309.3	220.3	275.4	8%	388.7	518.8	37%
EBITDA Margin(%)	7.7	7.8	7.3	6.5		7.0	7.5	
Net Profit	94.8	164.1	83.3	111.3	12%	203.4	290.4	62%
EPS (₹)	30.1	52.2	24.7	33.0		60.4	86.2	
P/E(x)	89.9	51.9	109.6	82.0		44.9	31.4	
RoE (%)	9.6	14.5	5.2	6.4		11.2	13.8	
RoCE (%)	12.3	14.3	7.7	6.8		10.5	13.4	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results:

- Revenue grew ~21% YoY to ₹ 1938 crore, led by 38% growth in the components & mobility segments to ₹ 935 crore. RAC segment grew albeit a slow pace of ~9% YoY to ₹ 1002 crore driven by volume growth of 27% YoY. However, change in product mix led to a sharp dip in realisation
- On the component & mobility front, motors, electronics, components revenues increased 13%, 48% and 47% YoY, respectively, to ₹ 80 crore, ₹ 262 crore and ₹ 511 crore, respectively. Mobility application business (i.e. Sidwal) reported muted revenue growth of 3% YoY to ₹ 82 crore
- Gross margin declined 208 bps YoY (450 bps QoQ). Rising costs of commodities and supply chain constraints led to an overall increase in input costs. The company has been able to pass on the majority of price increases to customers with a lag of a quarter. Employee costs also shot up by ~44% YoY due to higher Esop expenses
- As a result, EBITDA margin saw a dip of 236 bps YoY 6.5%
- PAT saw a dip of ~23% YoY to ₹ 59 crore, mainly tracking lower margins and higher interest outgo (up ~78% YoY to ₹ 19 crore)

Q4FY22 Earnings Conference Call highlights:

- RAC industry has grown 39% YoY to ₹ 17920 crore in FY22. On the volume front, the industry reported growth of 23% YoY to 6.4 mn units. The industry is likely to witness volume growth of ~30% YoY (to 8.2 mn units) in FY23E supported by opening up of schools, colleges, institutions and a revival in the real estate industry
- The company witnessed ~170 bps increase in market share (at OEM level) in FY22 to 26.6%. Amber sees continued market share gain in FY23E supported by customer addition and increased capacity in the southern region
- Leading brands are cautiously building up RAC inventory due to change in BEE norms expectation from July 2022
- Amber is ready with required changes in products under the new BEE norms
- The company is providing very comprehensive and integrated solutions in the component and finished good space
- Apart from HVAC, Amber is also expanding business opportunity into hearables & wearables (through its electronic division) and automotive industry (supplying motors to E-rickshaws) and fans. Revenue contribution of non-AC products to see substantial growth, going forward
- Component revenue share increased from 25% in FY17 to 50% in FY22
- Acquisition of Pravartaka will help Amber Enterprises to enhance its capability of injection moulding tools manufacturing and grow its component segment with focus on providing more diversified solution in components for automotive, electronics & consumer durable
- The motor division has reported revenue growth of 81% YoY to ₹ 236 crore (up 13% YoY to ₹ 80 crore in Q4FY22) led by increased export. The company has started export of motors to overseas clients (exported 1.5 lakh units of motors in the US and Middle East). The export volume is likely to be double in FY23. The motor division revenue is likely to grow at a CAGR of 25%, supported by customer addition and addition of new products for domestic and international clients
- The electronic segment (mainly Ijlin and Ever) reported strong revenue growth of 41% in FY22 to ₹ 650 crore (up 48% YoY to ₹ 262 crore in Q4FY22). The company has added new customers and started supply of new age application of smart hearables and wearables. Amber sees strong revenue growth (of about 50%) in FY23 supported by customer addition
- The component division revenue increased 71% YoY to ₹ 1057 crore (up 47% YoY to ₹ 511 crore in Q4FY22) due to consolidation of Amber PR and Pravartaka Tooling. Component segment is likely to grow ~25-30% supported by customer addition and expansion into new geography

- On the mobility business front (Sidwal), the company added a new global customer in FY22. Amber has started supplying cooling solutions for data centre clients. The company has added an entire product line of commercial ductable AC and cassette AC which it has started offering to existing customers. Amber has already signed a few MNC companies to provide cooling solutions for data centre. The order book of Sidwal is at ₹ 600 crore
- Average ticket size of cooling solutions for data centre (for capacity of 8-14 kwt) ranges between ₹ 4 lakh and ₹ 5 lakh
- Lower realisations in Q4FY22 is attributable to a change in the product mix. The window AC sales saw a sharp dip in Q4. The average realisation of IDU is ₹ 6000-6500, Window AC-₹ 17,000 and ODU ₹ 11000 per unit
- The company faced inflationary pressure due to the Russia-Ukraine war and lockdown in China (led to a challenge in raw material availability). Amber has taken a price hike of ~9% in FY22 vs. 11% cost inflation. The positive impact of price hike will be visible from Q1FY23 as it takes a quarter to pass on the price hike for Amber
- Under PLI, Amber has incurred required capex for FY22 and will have to clock incremental revenue in FY23E to claim 6% benefit in FY24
- Post PLI, local sourcing of compressors will increase to 80-85% in next two years vs. 16% currently. Increased local sourcing will lead to improve inventory turnover for players like Amber
- FY23 capex is likely to be in the range of ₹ 320-350 crore

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	20,001	6448	11704	18270	23137	4	4	4	4	160	213	466	658	24	27	40	40	22	26	40	38	124	94	43	30
Amber	9,131	3031	4206	5553	6917	7	7	7	8	83	111	203	290	8	7	10	13	5	6	11	14	110	82	45	31

Source: ICICI Direct Research

Amber Enterprises reported consolidated revenue growth of 40% YoY to ₹ 4206 crore in FY22 (last three year’s CAGR 15%). However, the company has witnessed continuous pressure in its margin (6.5% EBITDA margin in FY22E vs. ~8% in FY20) dragged by change in product mix, higher raw material cost and higher fixed costs (associated with new plants). As a result, overall PAT was restricted at ₹ 111 crore (i.e. three year CAGR of 6%). For FY22-24E, we build in revenue CAGR of 27% for Amber Enterprises led by ~34% growth in the component & mobility division (~50% of overall revenue). The component & mobility division growth will be driven by consolidation of new business, customer addition and new product offerings (electronic components for fans, automotive industry and other consumer durables). On the RAC front, we model revenue CAGR of ~22% in FY22-24E, supported by strong demand and customer additions. Going forward, we build in a flattish margin for FY22-24E considering impact of higher raw material cost and delay in price hikes. Therefore, we cut our PAT estimate by 21% and ~18% for FY23E and FY24E respectively. Consequently, we revise our rating from BUY to HOLD with a revised target price of ₹ 3050/share (valuing the stock at 35x FY24E EPS).

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	1936.7	1598.4	21.2	974.3	98.8	Seasonal demand of RAC coupled with strong component sales help drive overall revenue growth in Q4
Other Income	9.4	8.5	10.8	8.6	9	
Raw Material Exp	1669.9	1344.9	24.2	796.2	109.7	Delay in price hike led to 208 bps YoY decline in gross margin
Employee cost	42.7	29.7	43.7	39.7	7.8	Higher employee expenses due to one-time Esop expenses of ~₹ 4 crore in Q4FY22
Other Expenditure	98.8	82.6	19.6	64.8	52.5	Higher fixed cost is attributable to start of new capacities
Total Expenditure	1811.4	1457.2	24.3	900.7	101.1	
EBITDA	125.3	141.2	-11.3	73.6	70.2	
EBITDA Margin (%)	6.5	8.8	-236 bps	7.6	-109 bps	Sharp increase in employee expenses along with lower gross margins dragged overall EBITDA margin
Depreciation	30.2	22.7	33.0	27.1	11.6	
Interest	18.6	10.5	77.5	12.3	50.7	
Exceptional items						
PBT	85.9	116.4	-26.3	42.8	100.4	
Total Tax	26.6	40.0	-33.6	9.9	168.3	
PAT	59.3	76.5	-22.5	32.9	80.0	Sharp decline in PAT largely due to lower EBITDA margin and higher interest costs
Key Metrics						
RAC	1,002.0	923.0	8.6	376.0	166.5	Strong volume growth of 27% YoY partially offset by lower realisations due to change in product mix
Component & Mobile Applications	934.7	675.4	38.4	598.3	56.2	Favourable base, consolidation of new business (AmberPR & Pravartaka) and improved demand for both components drove segment revenue growth

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	5,698.9	5,552.9	(2.6)	7,220.8	6,917.2	(4.2)	We cut our revenue estimate for FY23E-24E by ~3%, ~4% YoY, respectively, considering lower realisations in the RAC business. We model our revenue CAGR of 28% for FY22-24E
EBITDA	467.3	388.7	(16.8)	595.7	518.8	(12.9)	
EBITDA Margin (%)	8.2	7.0	-120bps	8.2	7.5	-75bps	We lower our margin estimates considering higher raw material costs and delay in price hikes
PAT	257.3	203.4	(21.0)	352.0	290.4	(17.5)	
EPS (₹)	76.4	60.4	(21.0)	104.5	86.2	(17.5)	

* increased no. of shares due to QIP

Source: ICICI Direct Research

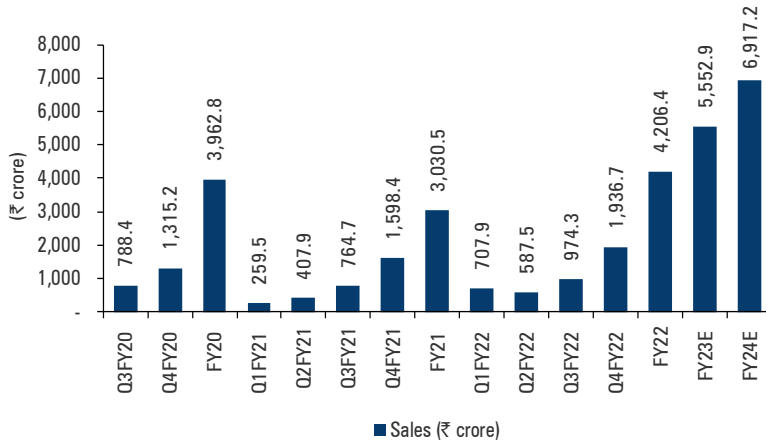
Exhibit 4: Assumptions

(%)	Current				Earlier			Comments
	FY20	FY21	FY22	FY23 E	FY24E	FY23E	FY24E	
RAC	39.9	(33.2)	21.8	27.0	17.0	27.0	24.0	We believe pent up demand, customer additions and changing lifestyle will help drive demand for RAC revenues in FY22-24E
Component & Mobile Applications	51.0	(8.3)	58.3	36.4	30.8	33.5	30.4	Consolidation of new business, healthy order book of Sidwal and client additions in the component business to drive sement revenue CAGR at ~34% in FY22-24E

Source: ICICI Direct Research

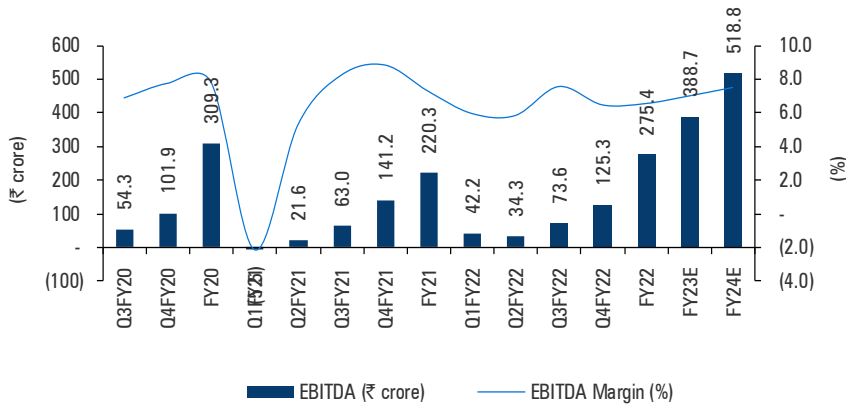
Financial story in charts

Exhibit 5: Revenue trend



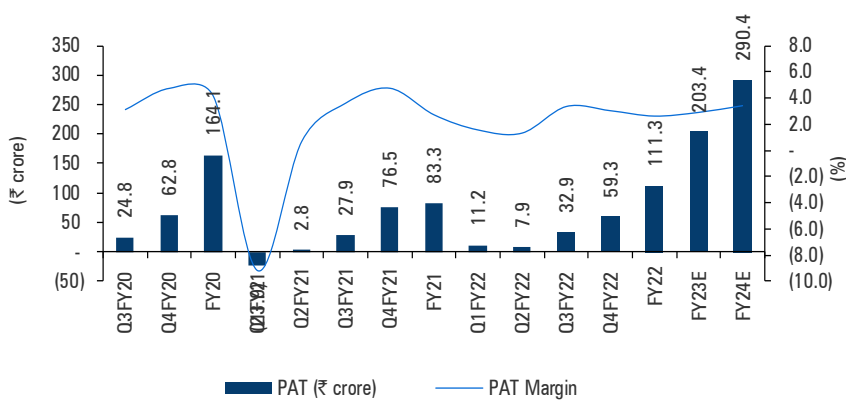
Source: Company, ICICI Direct Research

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	FY22	FY23E	FY24E
Revenue	3,030.5	4,206.4	5,552.9	6,917.2
Growth (%)		38.8	32.0	24.6
Expenses				
Raw material expense	2,529.0	3,524.9	4,692.2	5,831.2
Employee expenses	102.1	150.0	161.0	186.8
Other expenses	194.7	251.4	311.0	380.4
Total Operating Exp	2,810.2	3,931.0	5,164.2	6,398.4
EBITDA	220.3	275.4	388.7	518.8
Growth (%)		25.0	41.2	33.5
Depreciation	92.3	107.9	113.8	125.2
Interest	41.0	46.4	50.3	57.4
Other Income	33.1	33.2	40.0	41.5
PBT	120.1	154.3	264.5	377.7
Total Tax	36.9	42.9	61.1	87.3
PAT	83.3	111.3	203.4	290.4
Growth (%)		33.7	82.7	42.8
EPS (₹)	24.7	33.0	60.4	86.2

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	83.3	111.3	203.4	290.4
Add: Depreciation	92.3	107.9	113.8	125.2
(Inc)/dec in Current Assets	-237.7	-421.9	-216.2	-519.9
Inc/(dec) in CL and Provisions	227.9	439.6	64.5	340.1
Others	41.0	46.4	50.3	57.4
CF from operating activities	206.7	283.4	215.9	293.2
(Inc)/dec in Investments	0.0	-105.6	105.6	0.0
(Inc)/dec in Fixed Assets	-162.0	-530.6	-250.0	-150.0
Others	-255.5	-29.2	34.5	-47.6
CF from investing activities	-417.5	-665.4	-109.8	-197.6
Issue/(Buy back) of Equity	2.2	0.0	0.0	0.0
Inc/(dec) in loan funds	29.0	682.4	-50.0	-50.0
Dividend paid & dividend tax	-4.0	-8.1	-8.1	-8.1
Others	353.3	-19.6	-157.0	-57.4
CF from financing activities	380.4	654.7	-215.1	-115.5
Net Cash flow	169.7	272.7	-109.1	-19.9
Opening Cash	120.3	290.0	562.6	453.6
Closing Cash	290.0	562.6	453.6	433.7

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	33.7	33.7	33.7	33.7
Reserve and Surplus	1,570.4	1,700.5	1,789.2	2,071.5
Total Shareholders funds	1,604.1	1,734.2	1,822.9	2,105.2
Total Debt	349.5	1,031.8	981.8	931.8
Other non current liabilities	129.1	202.9	202.9	202.9
Total Liabilities	2,082.7	2,969.0	3,007.6	3,239.9
Assets				
Gross Block	1,493.6	1,947.4	2,197.4	2,347.4
Less: Acc Depreciation	457.3	565.2	679.1	804.3
Total Fixed Assets	1,065.0	1,487.7	1,623.9	1,648.7
Goodwill	122.3	145.7	145.7	145.7
Inventory	716.3	840.8	988.9	1,231.8
Debtors	1,069.0	1,314.9	1,369.2	1,610.8
Loans and Advances	32.1	1.8	58.9	73.4
Other CA	46.3	128.1	84.9	105.8
Cash	290.0	562.6	453.6	433.7
Total Current Assets	2,153.7	2,848.3	2,955.5	3,455.5
Creditors	1,316.9	1,702.1	1,673.5	1,933.0
Provisions	14.1	18.6	18.0	20.7
Other CL	172.8	222.8	316.6	394.3
Total Current Liabilities	1,503.8	1,943.5	2,008.0	2,348.1
Net current assets	649.9	904.8	947.5	1,107.4
Other non current assets	245.6	430.8	290.6	338.1
Total Assets	2,082.7	2,969.0	3,007.6	3,239.9

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	24.7	33.0	60.4	86.2
Cash EPS	52.1	65.1	94.1	123.3
BV	476.1	514.7	541.0	624.8
DPS	1.2	2.4	2.4	2.4
Operating Ratios (%)				
EBITDA Margin	7.3	6.5	7.0	7.5
PAT Margin	2.7	2.6	3.7	4.2
Asset Turnover	2.0	2.2	2.5	2.9
Inventory Days	86.3	73.0	65.0	65.0
Debtor Days	128.8	114.1	90.0	85.0
Creditor Days	158.6	147.7	110.0	102.0
Return Ratios (%)				
RoE	5.2	6.4	11.2	13.8
RoCE	7.7	6.8	10.5	13.4
RoIC	8.2	8.2	11.8	15.1
Valuation Ratios (x)				
P/E	109.6	82.0	44.9	31.4
EV / EBITDA	41.2	34.4	24.8	18.6
EV / Net Sales	3.0	2.3	1.7	1.4
Market Cap / Sales	3.0	2.2	1.6	1.3
Price to Book Value	5.7	5.3	5.0	4.3
Solvency Ratios				
Debt / Equity	0.2	0.6	0.5	0.4
Current Ratio	1.4	1.3	1.5	1.5
Quick Ratio	0.9	0.8	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct universe (Consumer Discretionary)

Sector / Company	M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)			RoE (%)				
	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	2,93,934	33.4	32.2	43.1	52.3	91.7	95.3	71.2	58.6	59.6	60.6	47.6	39.6	29.6	27.1	33.3	36.8	25.0	23.0	28.4	30.9
Berger Paints (BERPAI)	63,808	7.4	8.7	9.6	12.5	88.7	75.6	68.5	52.4	53.5	47.4	43.3	33.9	24.9	27.7	29.1	33.9	21.3	23.1	24.0	27.7
Kansai Nerolac (KANNER)	21,449	9.8	6.9	9.7	12.1	40.4	57.3	40.9	32.9	25.4	33.0	25.5	21.0	17.2	12.1	16.8	19.5	13.2	9.2	12.7	14.6
Pidilite Industries (PIDIND)	1,07,755	22.2	23.9	25.9	33.2	95.7	88.8	82.1	63.8	63.9	57.6	54.7	43.4	23.8	22.1	23.5	29.5	20.2	18.6	19.9	25.0
Bajaj Electricals (BAJELE)	10,413	16.5	11.2	24.7	33.0	55.1	81.1	36.8	27.6	35.1	40.1	24.7	19.6	15.1	14.0	21.0	23.3	10.7	9.2	16.5	18.6
Crompton Greaves(CROGR)	22,126	9.8	8.7	8.6	10.6	35.9	40.5	40.8	33.2	29.2	28.9	27.4	22.7	34.4	35.2	25.2	29.3	31.9	27.7	23.3	24.9
Havells India (HAVIND)	77,052	16.7	17.8	19.3	26.7	74.1	69.5	64.1	46.3	48.4	45.9	42.8	31.6	24.9	24.2	25.9	34.7	20.1	20.4	21.8	29.2
Polycab India (POLI)	37,944	59.3	61.4	62.9	80.8	42.8	41.4	40.3	31.4	33.3	29.1	26.0	20.3	20.6	20.2	20.7	23.0	17.9	15.6	15.7	17.5
Symphony (SYMLIM)	7,366	15.3	17.3	26.1	34.8	68.8	60.9	40.3	30.3	51.7	44.6	31.1	23.4	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	8,780	4.7	4.6	5.7	7.0	43.5	44.2	36.2	29.2	27.3	26.7	23.5	19.0	23.9	23.1	24.8	27.5	16.7	16.7	18.9	21.1
Voltas Ltd (VOLTAS)	30,857	16.0	15.3	21.0	28.9	58.4	61.0	44.5	32.2	47.4	44.3	36.8	26.2	15.0	14.0	18.0	21.0	10.6	9.2	13.8	16.6
Amber Enterprises (AMBEN)	9,131	24.7	33.0	60.4	86.2	109.6	82.0	44.9	31.4	41.2	34.4	24.8	18.6	7.7	6.8	10.5	13.4	5.2	6.4	11.2	13.8
Dixon Technologies (DIXTEC)	20,001	27.3	35.9	78.5	110.9	123.6	93.8	42.9	30.4	69.8	48.7	26.8	19.8	23.5	27.4	39.9	39.7	21.7	26.4	39.9	38.3
Supreme Indus (SUPIND)	23,843	77.0	76.2	78.8	92.7	24.4	24.6	23.8	20.3	18.0	18.8	18.0	14.8	33.1	25.9	25.2	26.7	30.9	25.2	24.3	25.1
Astral Ltd (ASTPOL)	34,692	20.3	24.9	27.5	33.9	85.0	69.4	62.7	50.9	53.2	44.8	41.3	34.1	27.5	29.6	28.8	30.3	21.5	23.0	22.3	23.3

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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