



Powered by the Sharekhan 3R Research Philosophy

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
Updated Apr 08, 2022 **29.63**

Medium Risk

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

Source: Morningstar

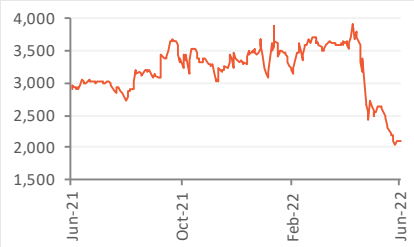
Company details

Market cap:	Rs. 7,126 cr
52-week high/low:	Rs. 4,026/2,040
NSE volume: (No of shares)	1.1 lakh
BSE code:	540902
NSE code:	AMBER
Free float: (No of shares)	2.0 cr

Shareholding (%)

Promoters	40.3
FII	28.1
DII	9.2
Others	22.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-17.7	-41.3	-37.6	-27.4
Relative to Sensex	-14.3	-32.1	-28.8	-27.3

Sharekhan Research, Bloomberg

Amber Enterprises

Optimistic long-term outlook despite near-term headwinds

Capital Goods	Sharekhan code: AMBER		
Reco/View: Buy	↔	CMP: Rs. 2,115	Price Target: Rs. 3,075
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Amber Enterprises Limited (Amber) expects Q1 and FY2023 to be healthy as industry growth is expected at over 30% y-o-y and the company aims to gain 100 bps in market share.
- Long-term growth will be driven by sectoral tailwinds such as increasing affordability, rising temperature, PLI scheme benefits, and reducing dependency on imports in the air conditioner industry.
- Amber would strengthen its market share in the long term through backward integration, which would enhance its product offerings, entry into new categories, and focus on growing exports to combat the sector's seasonality.
- The stock has corrected sharply by ~35% in the recent past; we believe near-term margin pressure and global headwinds are largely factored in the current valuation. Therefore, current price levels indicate a good entry point for long-term investors. We maintain Buy with a revised PT of Rs. 3,075.

Amber Enterprises Limited (Amber) with its 26.5% market share (in value terms) in room air conditioners [RAC, both finished goods and components) would further strengthen its position as the leading component supplier in the medium to long term. Growth will be driven by sectoral tailwinds such as increasing affordability, rising temperature, PLI scheme benefits, and reducing dependency on imports in the air conditioner industry. Further, the company would consolidate its market share through backward integration, which would enhance its product offerings, entry into new categories, and focus on growing exports to combat the sector's seasonality. Although near-term uncertainty in terms of cost inflation, global headwinds, and supply-side constraints may adversely impact its near-term performance.

Acquisitions would enhance product offerings: Amber carried out multiple acquisitions in the recent past, which has strengthened its product offerings. The company's acquisition of Pravartaka would help it to provide more diversified solutions for industries such as automotive, electronics, and consumer durables. Further, AmberPR, which is one of the leading cross flow fans (CFF) manufacturers in India has clientele such as Blue Star, Havells, LG, and Voltas. The company is now present in South India with its Sri City unit getting operational by July-August 2022. Its subsidiary, Sidwal, manufactures and sells heating, ventilation, air conditioning, and refrigeration equipment for mobile applications such as railway and metro coaches, buses, telecom, commercial refrigeration, and related components. It has a higher margin business and requires low capex and currently has a healthy order backlog.

PLI scheme benefit to flow in from FY2023: The PLI scheme for white goods, particularly air conditioners, aims to reduce India's dependency on imports as nearly ~50% of AC components are still imported. PLI targets key AC components, including compressors, motors, heat exchangers, and plastic moulding. There is a minimum investment and incremental sales required to avail PLI incentives under various categories. Amber had committed Rs. 460 crore under the PLI scheme. In FY2023, the company would get 6% benefit on incremental sales. However, given benefits under the PLI scheme, few of the mainstream AC brands have started manufacturing AC components such as heat exchangers. Nevertheless, Amber is confident that it would continue to source critical components such as cross flow fans, motors, and inverter PCB boards from the company.

Optimistic medium to long-term growth outlook: Management expects RAC demand to remain strong with the industry's growth expected at 30% y-o-y in FY2023. Management expects to outpace the industry's growth rate. In the RAC space, increasing localisation, PLI incentives, and work from home are expected to drive demand. In the components segment, the company would be manufacturing sheet metal components and heat exchangers for refrigerators and washing machines as well, thereby expanding its product portfolio. Hence, share of components (currently ~50% in total revenue is likely to increase further due to increased domestic outsourcing by brands. Penetration of ACs in India stands at 7-8%, way below the global average of 42%. This implies a significant growth opportunity for the industry, given the long-term structural growth triggers such as conducive demographics, rising per capita income, increasing urbanisation, availability of various financing options, uninterrupted power as well as energy-efficient models. Moreover, long-term growth triggers such as increasing affordability, improving lifestyles, and constantly rising temperature levels would lead to industry CAGR of ~20% over FY2021-FY2025E. Hence, despite near-term hiccups in terms of cost inflation and demand uncertainty, the medium to long-term growth outlook looks robust.

Revision in estimates – We have reduced our estimates for FY2022-FY2024E considering near-term pressure on growth and profitability given inflationary pressures and global headwinds.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 3,075: Amber is well placed to capture incremental demand accruing from the indigenisation of both fully built-up units and components ecosystem development. Demand is primarily being led by PLI schemes and the need to reduce dependency on imports of AC components to tackle supply chain constraints and become self-sufficient. Management remains optimistic about growth in components (including mobility, electronics, and non-RAC components) as well as exports in the next 3-4 years. Overall, we believe the company's strong long-term prospects as an all-round player in the AC space will be driven by expanding its customer base and widening product supplies aided by recent acquisitions. We have built in Revenue/PAT CAGR of ~30%/35% over FY2022-FY2024E. The stock has corrected sharply by ~35% in the recent past; we believe near-term margin pressure and global headwinds are largely factored in the current valuation. Therefore, current price levels indicate a good entry point for long-term investors. We maintain Buy with a revised price target (PT) of Rs. 3,075.

Key Risks

- Lower demand and subdued customer sentiments due to cost inflation might impact revenue growth.
- Lack of diversified revenue base as there is a high revenue concentration of RAC and related components.

Valuation (Consolidated)

Particulars	FY21	FY22	FY23E	FY24E
Revenue	3,031	4,206	4,995	6,349
OPM (%)	7.3	6.5	7.0	7.4
Adjusted PAT	82	109	126	199
% y-o-y growth	(48.5)	33.3	15.7	58.3
Adjusted EPS (Rs.)	24.2	32.3	37.4	59.1
P/E (x)	87.3	65.5	56.6	35.8
P/B (x)	7.1	6.6	6.1	5.5
EV/EBITDA (x)	40.7	43.1	34.3	25.8
RoNW (%)	6.0	6.5	7.0	10.2
RoCE (%)	8.6	7.9	8.2	11.1

Source: Company; Sharekhan estimates

Recent acquisitions would enhance product offerings

Amber has carried out multiple acquisitions in the recent past, which have strengthened its product offerings. The company acquired 60% stake in Pravartaka in Q4FY2022, which makes injection moulding tools. This would help Amber in backward integration with a focus on providing more diversified solutions for industries such as automotive, electronics, and consumer durables. In Q3FY2022, Amber acquired 73% stake in AmberPR, which is one of the leading cross flow fans (CFF) manufacturers in India. The company is also in the business of fans and fan guard for outdoor units of room ACs, plastic parts for water dispensers, refrigeration applications, and plastic parts for seats of trucks, tractors, and buses. The company's main clientele included Amber, Blue Star, Godrej, Havells, LG, and Voltas. Amber also invested ~Rs. 61 lakhs for ~11% stake in Sri City in Q3FY22. Sri City is an SPV formed and incorporated for establishing and setting up greenfield electronics manufacturing cluster within Sri City (EMC Project) by Sri City Pvt. Ltd. It is an exclusive zone for companies involved in electronic R&D, design, manufacturing, and assembly operations. Amber's subsidiary - Sidwal Refrigeration Industries is also a higher margin business and requires low capex and has healthy order backlog. Therefore, through various acquisitions over the past few years, Amber has become a backward integrated contract manufacturer. Amber is also focusing on exports, which will help the company combat the seasonal nature of domestic AC sales.

PLI scheme benefit to flow in from FY2023

The PLI scheme for white goods particularly air conditioners aims to reduce India's dependency on imports from China and Thailand as nearly ~50% of AC components are still imported. PLI targets key AC components, which include compressors, motors, heat exchangers, and plastic moulding. There is a minimum investment and incremental sales required to avail PLI incentives under various categories. It is expected that 60-80% of the capital invested can be recovered in the form of PLI incentives for the AC component category. Amber had committed Rs. 460 crore and the first financial year investment threshold has already been achieved by Amber. Out of Rs. 400 crore, Rs. 100 crore is in ILJIN and Rs. 300 crore is in Amber. In FY2023, the company would have to do incremental sales on which the company would get 6% benefit. However, given benefits under the PLI scheme, few of the mainstream AC brands have started manufacturing - AC components such as heat exchangers. Although Amber seems confident that it would continue to source critical components such as cross flow fans, motors, and inverter PCB boards from the company.

Optimistic medium to long-term growth outlook

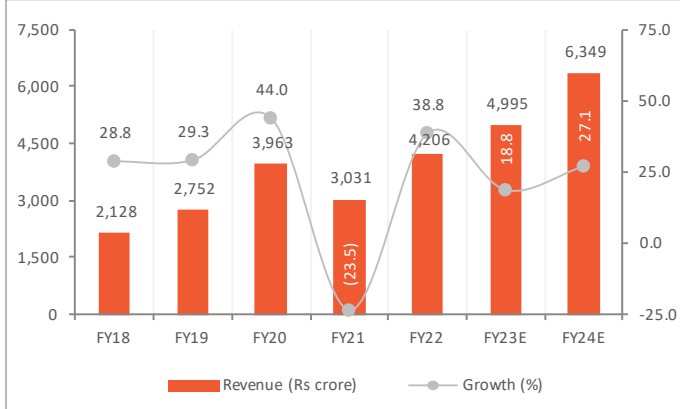
Management expects RAC demand to remain strong with the industry's growth expected at 30% y-o-y in FY2023. It expects to outpace the industry's growth rate. In the RAC space, increasing localisation, PLI incentives, and work from home are expected to drive demand. The company is now present in South India with its Sri City unit getting operational by July-August 2022. This shall add revenue growth going forward. In the components segment, the company would be manufacturing sheet metal components and heat exchangers for refrigerators and washing machines as well, thereby expanding its product portfolio. Hence, share of components (currently ~50%) in total revenue is likely to increase further due to increased domestic outsourcing by brands. The company expects that some of the unmet demand of Q1FY2023 due to supply chain disruption and changes in energy norms could spill over to August and the festive season in FY2023. Therefore, instead of 4-5 months, demand may spread to 8-9 months. Hence, despite near-term hiccups in terms of cost inflation and demand uncertainty, the medium to long-term growth outlook looks robust.

Room air conditioners (RAC) industry poised for a healthy and sustainable growth

Penetration of ACs in India stands at 7-8%, way below the global average of 42%. This implies a significant growth opportunity for the industry, given long-term structural growth triggers such as conducive demographics, rising per capita income, increasing urbanisation, availability of various financing options, uninterrupted power as well as energy-efficient models. As per industry reports, the AC industry reported healthy growth of ~10%/16% in value and volume terms, respectively, over FY2015 to FY2020. However, business in the last two summers was hit by COVID-led lockdowns. Hence, given lower base effect and pent-up demand of the last two years, the AC industry is expected to grow at 20-25% in the next two years vis-à-vis pre-pandemic volumes. Moreover, long-term growth triggers such as increasing affordability, improving lifestyles, and constantly rising temperature levels would lead to industry CAGR of ~20% over FY2021-FY2025E.

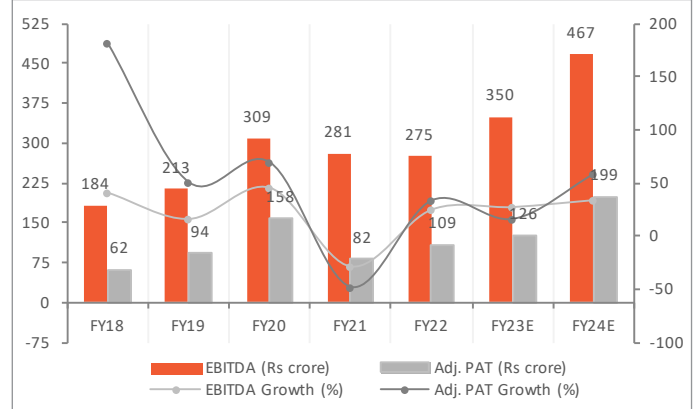
Financials in charts

Revenue growth trend



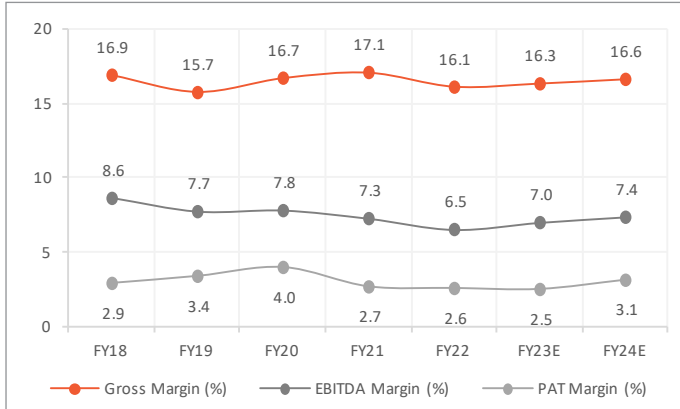
Source: Company, Sharekhan Research

Profitability growth trend



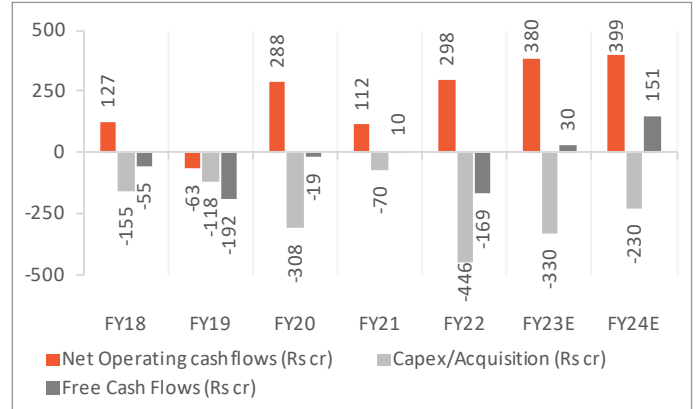
Source: Company, Sharekhan Research

Margin trend



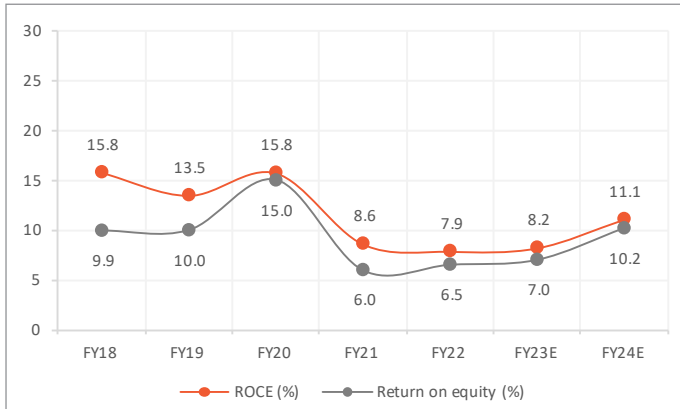
Source: Company, Sharekhan Research

Cash flow and capex trend



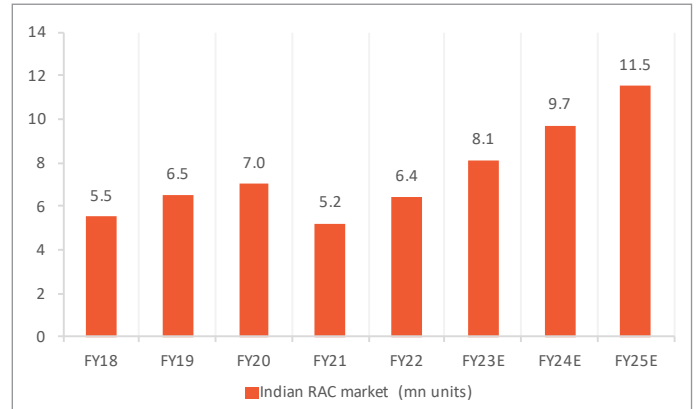
Source: Company, Sharekhan Research

Return ratios trend



Source: Company, Sharekhan Research

AC volumes to grow robustly



Source: Frost and Sullivan Analysis, Sharekhan Research

Outlook and Valuation

■ Sector View – Demand outlook encouraging, healthy growth prospects

The air-conditioner industry is well poised for growth given strong pent up demand post two-year lull. Further, increasing disposable incomes, upgrade in lifestyles and rising temperatures are the structural growth drivers for the industry. Moreover, owing to a shift in manufacturing base outside China and the government's incentives to enhance manufacturing through the Make in India initiative, there are enormous opportunities for well-integrated players like Amber Enterprises. 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.

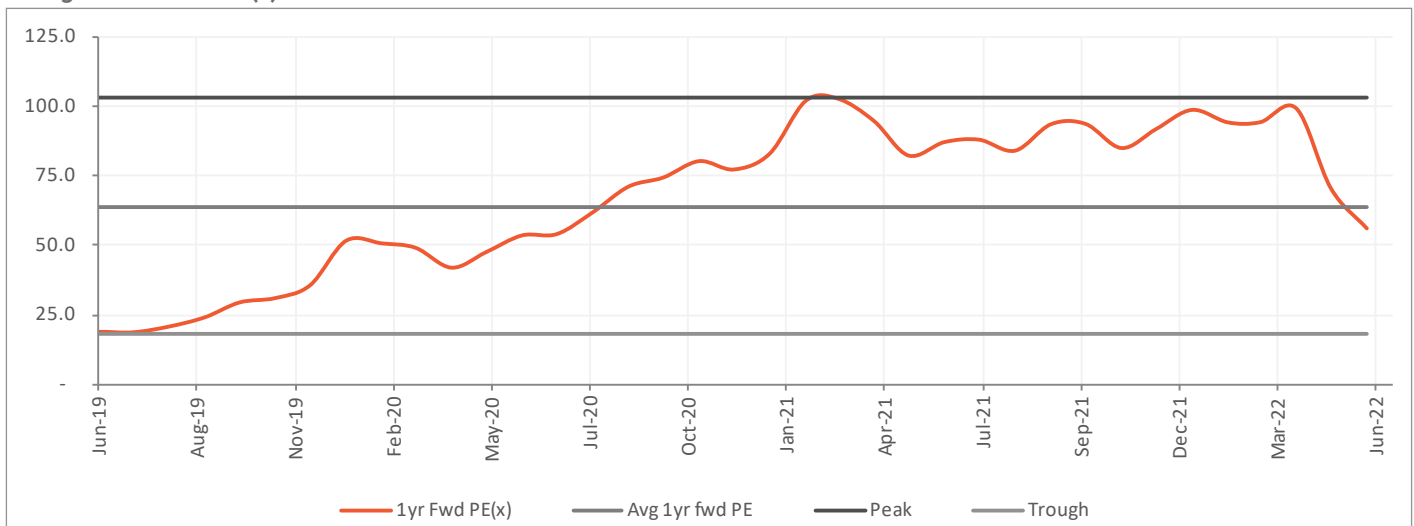
■ Company Outlook – Long runway for growth

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. It will also be a key beneficiary of recently announced PLI schemes for AC and its components. The company is expanding capacity through two Greenfield projects, one in Supa, Pune, and the other in Chennai. 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, outlook remains optimistic and management confident of capturing opportunities with better volume offtake despite short-term challenges such as supply chain issues and spike in raw-material prices.

■ Valuation – Retain Buy with a revised PT of Rs. 3,075

Amber is well placed to capture incremental demand accruing from the indigenisation of both fully built-up units and components ecosystem development. Demand is primarily being led by PLI schemes and the need to reduce dependency on imports of AC components to tackle supply chain constraints and become self-sufficient. Management remains optimistic about growth in components (including mobility, electronics, and non-RAC components) as well as exports in the next 3-4 years. Overall, we believe the company's strong long-term prospects as an all-round player in the AC space will be driven by expanding its customer base and widening product supplies aided by recent acquisitions. We have built in Revenue/PAT CAGR of ~30%/35% over FY2022-FY2024E. The stock has corrected sharply by ~35% in the recent past; we believe near-term margin pressure and global headwinds are largely factored in the current valuation. Therefore, current price levels indicate a good entry point for long-term investors. We maintain Buy with a revised PT of Rs. 3,075.

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's comprehensive product portfolio includes room AC (indoor and outdoor units as well as window ACs), reliable critical components, which has a long approval cycle. The company is one of the largest manufacturers and suppliers of critical components such as heat exchangers, PCBs, motors, sheet metal, and case liner of RAC and other consumer durables such as refrigerators and washing machines. Amber has emerged as a market leader in the Indian RAC OEM/ODM industry with more than 70% market share and 26.5% market share in overall RAC market in FY2022. 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 five years and has a marquee customer base as 8 out of top 10 RAC brands are its clients.

Investment theme

Amber has a market leadership position in the OEM/ODM segment for branded room ACs. Further, the opportunity size seems to be increasing as OEM players are now more focused on the innovation and marketing side of the business and relying on outsourcing for manufacturing of their products. We believe 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 a 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 are likely to drive the company's performance.

Key Risks

- 1) Lower demand and subdued customer sentiments due to cost inflation might impact revenue growth.
- 2) Lack of diversified revenue base as there is a high revenue concentration of RAC and related components.

Additional Data

Key management personnel

Jasbir Singh	Executive Chairperson and CEO
Daljit Singh	Executive Managing Director
Sudhir Goyal	Chief Financial Officer
Konica Yadav	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Ascent Investment Holdings Pte Ltd.	9.76
2	Kotak Mahindra Trustee Co Ltd.	4.97
3	Goldman Sachs Funds - Goldman Sachs Emerging Markets	4.31
4	ICICI Prudential Life	2.42
5	Vanguard Group	2.10
6	Goldman Sachs Trust-Goldman Sachs Emerging Markets	1.86
7	Akash Bhanshali	1.48
8	Kartar Singh	1.29
9	William Blair	1.25
10	Oxbow Master Fund	1.14

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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