

Amber Enterprises

Refer to important disclosures at the end of this report

Time is not yet ripe for an upgrade

- We are revising our forecasts for Amber again by 1) lowering FY23-25 RAC volume estimates by 6-9%, 2) reducing export revenue assumptions for CBUs from FY24 and beyond and 3) tweaking margins by 15-20bps with a higher cut for FY23.
- We believe that Amber's outperformance vs. the industry would be limited going forward, unlike in the past. Elongated approval timelines and potential rise in competition from Chinese players could also restrict full potential of CBU export opportunity in near-term.
- However, our robust FY22-25E revenue growth projections for components (~34% CAGR) is underpinned by strong demand from brands with increase in local sourcing as ecosystem will evolve under ongoing PLI scheme and Amber's strong market positioning.
- We trim FY23-25E EPS by 5-14% and also lower the target multiple to 25x from 30x to arrive at a TP of Rs2,350. Maintain Hold. After the steep fall in the Amber's stock price recently, downside looks limited. We also note that there are no immediate upside triggers.

Model update: After lowering our estimates after Q4 results, we are reducing our estimates further as we factor in the change in RAC volume estimates. The rise in competitive intensity and changing requirements of brands (higher procurement of components instead of CBUs) might restrict Amber's RAC volume growth outperformance vs. the industry, unlike in the past. We are trimming CBU export forecasts, which were bullish earlier, taking into account the longer product approval time and potential competition from Chinese counterparts, as the development of the Indian component ecosystem will be a gradual process under PLI led scale-up. Our FY22-25 revenue growth estimates for the components business (CAGR: 34%) remain unchanged, underpinned by Amber's dominant position in the market amid limited expansion on backward integration by brands, as well as export opportunities (already seen in the motors business). The change in revenue mix has led to the margin tweak.

Outlook: We believe Amber will remain the top player in the RAC outsourcing industry given its capacity and ongoing expansion plans. The changes in volume market share in FY22 were partly due to the shifting of CBUs in-house by brands and higher competition. However, we expect ~100bps volume market share gains for Amber in 2-3 years, and management is also targeting value market improvement from the current ~26.5%. Despite a sharp cut in our estimates, we are factoring revenue/EBITDA/PAT CAGRs (FY22-25E) of 29%/36%/52%. The 40% stock price correction in the last 3 months should limit near-term downsides, while the upside will depend on positive surprises on execution and delivery fronts. We think the 'irrationally exuberant' valuations have moderated due to weak performance and can further correct if the earnings cut cycle goes on. **Key risks:** better-than-expected recovery; further market share loss for Amber; adverse commodity trends; and delay in export opportunities.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Consumer Durables \(Page 7\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	30,305	42,064	57,234	74,397	89,314
EBITDA	2,203	2,754	4,178	5,766	6,922
EBITDA Margin (%)	7.3	6.5	7.3	7.8	7.8
APAT	816	1,092	1,983	2,947	3,802
EPS (Rs)	24.2	32.4	58.8	87.5	112.8
EPS (% chg)	(51.9)	33.8	81.6	48.6	29.0
ROE (%)	6.0	6.6	10.9	14.3	15.8
P/E (x)	89.5	66.9	36.8	24.8	19.2
EV/EBITDA (x)	33.8	28.1	18.7	13.4	10.9
P/BV (x)	4.6	4.3	3.8	3.3	2.8

Source: Company, Emkay Research. Team.emkay@whitemarquesolutions.com use and downloaded at 06/27/2022 11:44 AM

CMP	Target Price
Rs 2,167 as of (June 26, 2022)	Rs 2,350 (▼) 12 months
Rating	Upside
HOLD (■)	8.5 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(4.9)/(10.6)
Target Price change (%)	(26.1)
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	58.8	87.5
Consensus	64.6	93.5
Mean Consensus TP (12M)	Rs 3,268	

Stock Details

Bloomberg Code	AMBER IN
Face Value (Rs)	10
Shares outstanding (mn)	34
52 Week H/L	4,026 / 2,030
M Cap (Rs bn/USD bn)	73 / 0.93
Daily Avg Volume (nos.)	149,553
Daily Avg Turnover (US\$ mn)	5.5

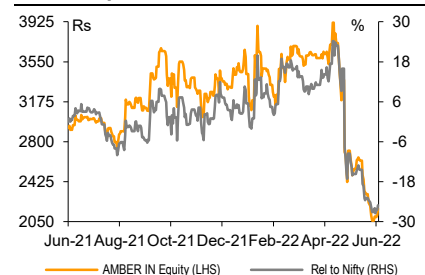
Shareholding Pattern Mar '22

Promoters	40.3%
FIIIs	28.1%
DIIIs	9.2%
Public and Others	22.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(16)	(40)	(36)	(27)
Rel. to Nifty	(13)	(34)	(30)	(27)

Relative price chart



Source: Bloomberg

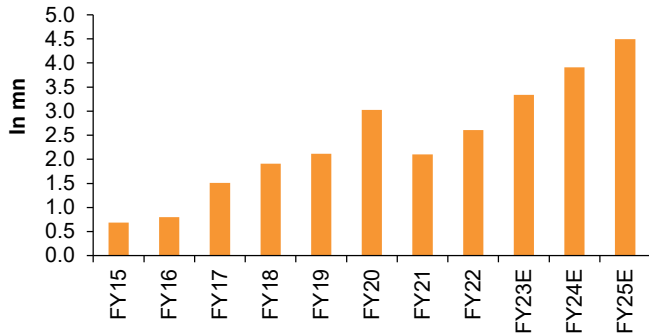
This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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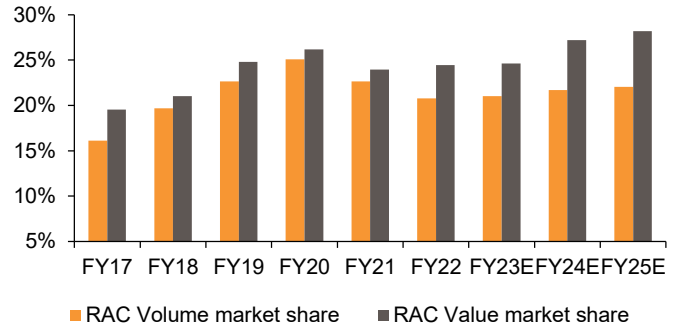
Story in Charts

Exhibit 1: We estimate RAC volume to see 20% CAGR over FY22-25, supported by market growth and marginal market share gains



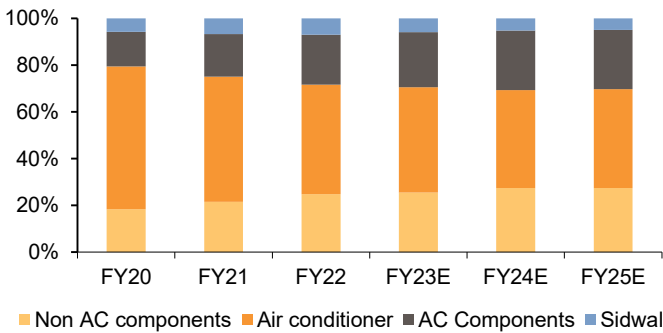
Source: Company, Emkay Research

Exhibit 2: Volume and value market share should improve over the 2-3 years with higher gains in value share



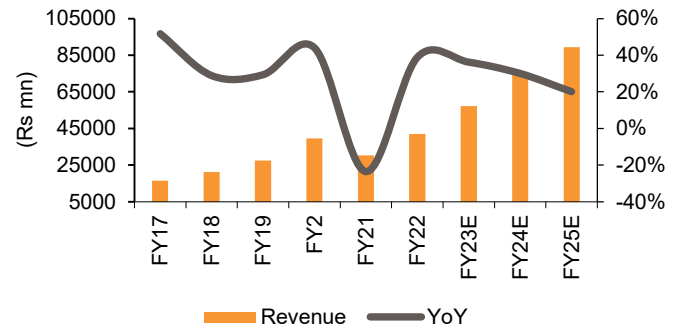
Source: Emkay Research

Exhibit 3: Contribution from components should rise to 53% in FY25 vs. 46% in FY20.



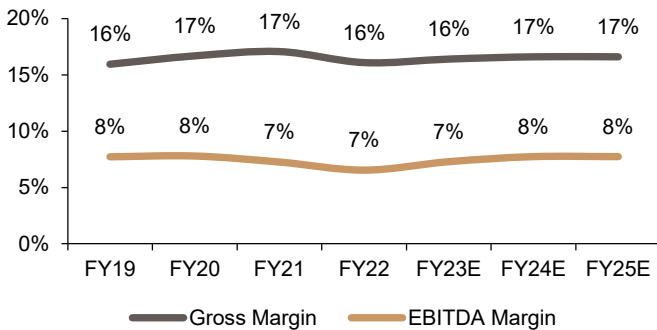
Source: Company, Emkay Research

Exhibit 4: Robust revenue growth will be backed by component business



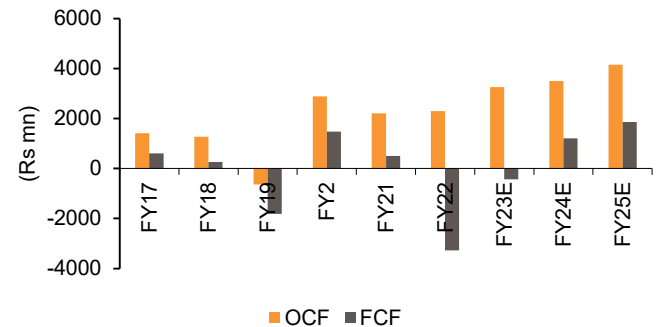
Source: Company, Emkay Research

Exhibit 5: Gross margins are expected to improve from lows of FY22



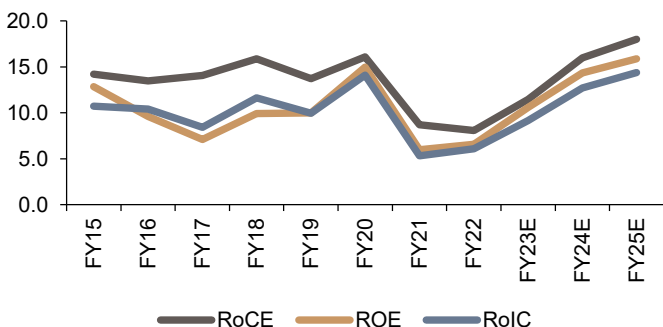
Source: Company, Emkay Research

Exhibit 6: FCF generation will start from FY24 onward



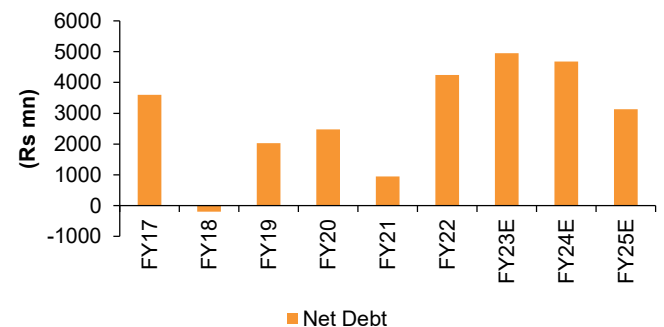
Source: Company, Emkay Research

Exhibit 7: Despite robust growth in profitability post tax RoIC will remain sub-15%



Source: Company, Emkay Research

Exhibit 8: Notable net debt reduction will reflect from FY25 as the company is in investment phase currently



Source: Company, Emkay Research

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Estimate changes

The steep cut in our estimates is due to: 1) a reduction in our RAC volume assumptions as we believe that it is difficult for Amber to continue its extraordinary outperformance vs. the industry growth rates. We now estimate FY22-25 RAC volume CAGR at 20%, down from 24% previously; and 2) significant revision in export revenue assumptions for CBUs due to long-dated product approvals and potential competitive intensity from Chinese players (in such a scenario, Amber and other Indian firms will find it difficult to compete as the component ecosystem will time to evolve). We have cut FY23-25E margins by 15-20bps, with FY23 margins seeing a higher cut as Q1FY23 should continue to see the headwinds emanating from INR depreciation. We continue to note that if Amber is not able to sustain RAC volume market share, it will see further estimate cuts, and probably a valuation de-rating as well.

Exhibit 9: Changes in estimates

Rs mn	FY23E			FY24E			FY25E		
	Old	Revised	% Change	Old	Revised	% Change	Old	New	% Change
AC Revenue	26,963	25,814	-4.3%	36,999	31,195	-15.7%	47,678	37,802	-20.7%
Non AC Revenue	31,467	31,420	-0.1%	43,267	43,202	-0.2%	51,590	51,512	-0.2%
Total Revenue	58,430	57,234	-2.0%	80,267	74,397	-7.3%	99,268	89,314	-10.0%
EBITDA	4,382	4,178	-4.7%	6,341	5,766	-9.1%	7,842	6,922	-11.7%
EBITDA Margin %	7.5	7.3	-20 bps	7.9	7.8	-15 bps	7.9	7.8	-15 bps
PAT	2,081	1,983	-4.7%	3,298	2,947	-10.6%	4,400	3,802	-13.6%
EPS	61.8	58.8	-4.7%	97.9	87.5	-10.6%	130.6	112.8	-13.6%

Source: Company, Emkay Research

Exhibit 10: Key revenue assumptions

Rs mn	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Air-Conditioner	17,408	24,250	16,781	19,750	25,814	30,242	34,744
% yoy growth	13%	39%	-31%	18%	31%	17%	15%
AC Components	4,172	5,841	5,257	9,462	13,498	18,897	22,676
% yoy growth	39%	40%	-10%	80%	50%	40%	20%
Non AC Components	5,941	7,277	6,258	9,962	14,596	20,434	24,521
% yoy growth	106%	23%	-14%	59%	40%	40%	20%
Sidwal		2,260	2,011	2,890	3,327	3,871	4,315
% yoy growth			-11%	44%	15%	16%	11%
Total Revenue	27,520	39,628	30,306	42,064	57,234	74,397	89,314
% yoy growth	29%	44%	-24%	39%	36%	30%	20%

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	30,305	42,064	57,234	74,397	89,314
Expenditure	28,102	39,310	53,056	68,631	82,392
EBITDA	2,203	2,754	4,178	5,766	6,922
Depreciation	923	1,079	1,228	1,357	1,486
EBIT	1,280	1,675	2,950	4,409	5,436
Other Income	331	332	366	133	117
Interest expenses	410	464	636	571	436
PBT	1,201	1,543	2,679	3,971	5,117
Tax	369	429	674	999	1,288
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	17	21	22	24	27
Reported Net Income	816	1,092	1,983	2,947	3,802
Adjusted PAT	816	1,092	1,983	2,947	3,802

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	337	337	337	337	337
Reserves & surplus	15,704	16,818	18,823	21,794	25,623
Net worth	16,041	17,155	19,159	22,131	25,960
Minority Interest	365	385	385	385	385
Loan Funds	3,843	10,343	6,843	6,343	4,843
Net deferred tax liability	769	899	899	899	899
Total Liabilities	21,019	28,782	27,287	29,758	32,087
Net block	11,440	15,054	18,317	19,251	20,056
Investment	551	1,051	1,051	1,051	1,051
Current Assets	23,421	31,064	33,233	42,336	50,489
Cash & bank balance	1,800	4,996	797	1,068	1,110
Other Current Assets	3,447	4,218	3,490	3,642	4,209
Current liabilities & Provision	14,826	19,668	25,795	33,361	39,991
Net current assets	8,595	11,396	7,438	8,975	10,499
Misc. exp	0	0	0	0	0
Total Assets	21,019	28,782	27,287	29,758	32,087

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	870	1,210	2,313	3,838	5,000
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(2,595)	525	(241)	(1,266)	(1,482)
Operating Cashflow	2,210	2,290	3,263	3,500	4,152
Capital expenditure	(1,620)	(5,541)	(3,691)	(2,291)	(2,291)
Free Cash Flow	590	(3,252)	(428)	1,209	1,861
Investments	(551)	(500)	0	0	0
Other Investing Cash Flow	(2,970)	680	0	0	0
Investing Cashflow	(4,810)	(5,029)	(3,325)	(2,158)	(2,174)
Equity Capital Raised	22	0	0	0	0
Loans Taken / (Repaid)	169	6,500	(3,500)	(500)	(1,500)
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	4,619	1,700	4,996	813	1,084
Financing Cashflow	4,400	7,735	860	(258)	(852)
Net chg in cash	1,800	4,996	797	1,084	1,126
Opening cash position	700	1,800	4,996	797	1,068
Closing cash position	1,800	4,996	797	1,084	1,126

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	7.3	6.5	7.3	7.8	7.8
EBIT Margin	4.2	4.0	5.2	5.9	6.1
Effective Tax Rate	30.7	27.8	25.2	25.2	25.2
Net Margin	2.7	2.6	3.5	4.0	4.3
ROCE	8.7	8.1	11.8	15.9	18.0
ROE	6.0	6.6	10.9	14.3	15.8
RoIC	5.3	6.1	9.5	12.7	14.4

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	24.2	32.4	58.8	87.5	112.8
CEPS	51.6	64.4	95.3	127.7	156.9
BVPS	476.1	509.1	568.6	656.8	770.5
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	89.5	66.9	36.8	24.8	19.2
P/CEPS	42.0	33.6	22.7	17.0	13.8
P/BV	4.6	4.3	3.8	3.3	2.8
EV / Sales	2.5	1.8	1.4	1.0	0.8
EV / EBITDA	33.8	28.1	18.7	13.4	10.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	0.1	0.3	0.3	0.2	0.1
Net Debt/EBIDTA	0.7	1.6	1.2	0.7	0.4
Working Cap Cycle (days)	81.8	55.5	42.3	38.8	38.4

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(23.5)	38.8	36.1	30.0	20.1
EBITDA	(28.8)	25.0	51.7	38.0	20.1
EBIT	(43.0)	30.9	76.1	49.5	23.3
PAT	(48.5)	33.8	81.6	48.6	29.0

Quarterly (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenue	15,984	7,079	5,875	9,743	19,367
EBITDA	1,412	422	343	736	677
EBITDA Margin (%)	8.8	6.0	5.8	7.6	3.5
PAT	755	124	74	321	(4)
EPS (Rs)	22.4	3.7	2.2	9.5	(0.1)

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	40.3	40.3	40.3	40.3	40.3
FIIIs	28.1	28.1	29.0	29.1	28.1
DIIIs	7.6	7.2	8.9	9.3	9.2
Public and Others	24.0	24.4	21.9	21.4	22.4

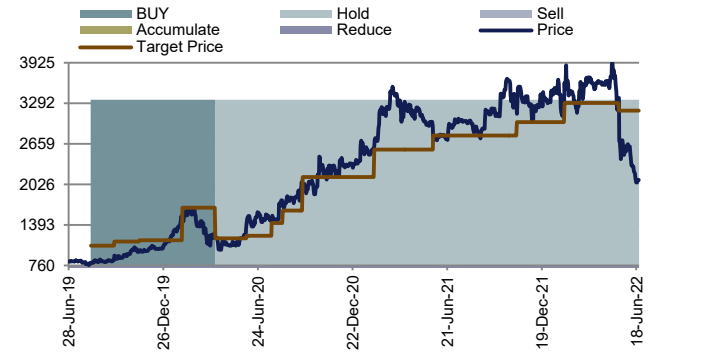
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
15-May-22	3,379	3,180	12m	Hold	Naval Seth
31-Jan-22	3,610	3,300	12m	Hold	Naval Seth
17-Nov-21	3,389	3,000	12m	Hold	Naval Seth
1-Nov-21	3,127	3,000	12m	Hold	Naval Seth
23-Aug-21	2,743	2,790	12m	Hold	Naval Seth
10-Aug-21	2,867	2,790	12m	Hold	Naval Seth
25-May-21	2,766	2,790	12m	Hold	Naval Seth
1-Feb-21	2,624	2,571	12m	Hold	Naval Seth
9-Nov-20	2,187	2,140	12m	Hold	Naval Seth
17-Sep-20	1,978	2,140	12m	Hold	Naval Seth
10-Aug-20	1,714	1,619	12m	Hold	Naval Seth
20-Jul-20	1,484	1,424	12m	Hold	Naval Seth
2-Jun-20	1,437	1,225	12m	Hold	Naval Seth
7-Apr-20	1,190	1,184	12m	Hold	Naval Seth
3-Apr-20	1,193	1,184	12m	Hold	Naval Seth
16-Mar-20	1,225	1,664	12m	Buy	Naval Seth
5-Mar-20	1,423	1,664	12m	Buy	Naval Seth
13-Feb-20	1,606	1,664	12m	Buy	Naval Seth
31-Jan-20	1,510	1,664	12m	Buy	Naval Seth
16-Dec-19	1,016	1,154	12m	Buy	Naval Seth
28-Nov-19	1,016	1,154	12m	Buy	Naval Seth
19-Nov-19	987	1,154	12m	Buy	Naval Seth
10-Nov-19	976	1,154	12m	Buy	Naval Seth
23-Sep-19	916	1,136	12m	Buy	Naval Seth
11-Sep-19	843	1,072	12m	Buy	Naval Seth
9-Aug-19	799	1,072	12m	Buy	Naval Seth

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Consumer Durables



Analyst: Naval Seth

Contact Details

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Sector

Consumer Durables, Media & Entertainment, SMID and Telecom

Analyst bio

Naval holds an MBA in Finance and has more than 13 years of experience in equity research. His team currently covers 19 stocks spread across three different sectors.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Consumer Durables	1.03	1.03	0%	0	100.00	
Amber Enterprises	0.00	0.00	NA	0	0.00	0
Blue Star	0.00	0.00	NA	0	0.00	0
Crompton Greaves CE	0.22	0.22	2%	0	21.41	0
Dixon Technologies	0.12	0.12	-1%	0	11.49	0
Havells India	0.30	0.30	0%	0	29.24	0
KEI Industries	0.00	0.00	NA	0	0.00	0
Polycab India	0.10	0.10	-1%	0	9.63	0
V-Guard Industries	0.00	0.00	NA	0	0.00	0
Voltas	0.24	0.24	-1%	0	23.30	0
Whirlpool Of India	0.05	0.05	-6%	0	4.65	0
Cash	0.00	0.00	NA	0	0.27	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	23-Jun-21	23-Dec-21	23-Mar-22	23-May-22	23-Jun-22
EAP - Consumer Durables	100.0	163.1	191.3	176.8	161.4	152.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	150.5	176.5	165.6	151.0	142.7

*Performance measurement base date 1st April 2019

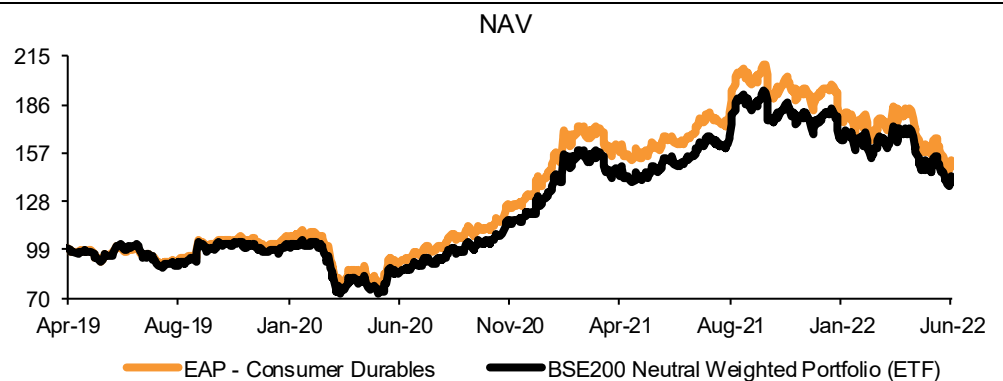
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Consumer Durables	-5.6%	-13.8%	-20.3%	-6.5%
BSE200 Neutral Weighted Portfolio (ETF)	-5.5%	-13.8%	-19.2%	-5.2%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 26 Jun 2022 17:07:28 (SGT)

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