

EBITDA margin pressure continues...

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

Q1FY23 Results: Strong topline growth; higher input cost drags margin.

- Favourable base and strong demand for cooling products resulted in consolidated revenue growth of 2.6x YoY to ~₹ 1826 crore. This was led by ~3x growth in component & mobility business to ₹ 773 crore. RAC segment revenue also up 2.4x YoY to ₹ 1053 crore
- EBITDA margin fell 52 bps YoY to 5.4% due to higher raw material costs
- PAT up ~4x YoY to ~₹ 43 crore, tracking strong sales growth in Q1

What should investors do? Amber's share price has grown by ~2.4x over the past four years (from ~₹ 918 in August 2018 to ~₹ 2185 levels in August 2022).

- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value Amber at ₹ 2415 i.e. 30x P/E on FY24E EPS

Key triggers for future price performance:

- The AC industry is likely to grow 30% YoY in FY23E supported by revival in 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 US and Middle East

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

Dixon Technologies is India's leading electronic manufacturing (EMS) provider and one of the largest beneficiaries of the government's PLI scheme. It has a strong RoE, RoCE at ~20%, ~24%, respectively (three year's average)

- BUY with a target price of ₹ 4200



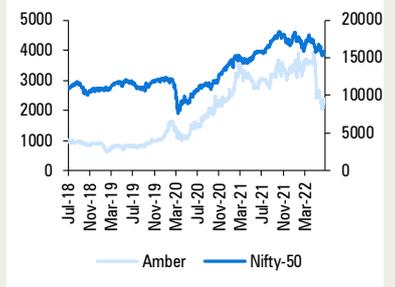
Particulars

Particular	Amount
Market Cap (₹ Crore)	7,362.1
Total Debt (FY22) (₹ Crore)	1,031.8
Cash & Inv (FY22) (₹ Crore)	562.6
EV (₹ Crore)	7,831.3
52 week H/L	4026/ 2030
Equity capital (₹ Crore)	33.7
Face value (₹)	10.0

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	40.3	40.3	40.3	40.3	40.3
FII	28.1	29.0	29.1	28.1	26.9
DII	7.2	8.9	9.3	9.2	8.8
Others	24.4	21.8	21.4	22.4	24.1

Price Chart



Recent event & key risks

- Key Risk:** (i) Strong RAC and its component demand (ii) Delay in passing on high input prices

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22	3 Year CAGR (FY19-22)	FY23E	FY24E	2 Year (CAGR 22-24E)
Net sales	2752.0	3962.8	3030.5	4206.4	15%	6125.5	7687.2	35%
EBITDA	212.9	309.3	220.3	275.4	9%	392.0	530.4	39%
EBITDA Margin(%)	7.7	7.8	7.3	6.5		6.4	6.9	
Net Profit	94.8	164.1	83.3	111.3	6%	169.1	269.4	56%
EPS (₹)	30.1	52.2	24.7	33.0		50.2	80.0	
P/E(x)	72.5	41.9	88.4	66.1		43.5	27.3	
RoE (%)	9.6	14.5	5.2	6.4		9.5	13.1	
RoCE (%)	12.3	14.3	7.7	6.8		10.6	13.9	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Strong topline growth on favourable base

- Consolidated revenue up 2.6x YoY to ~₹ 1826 crore, on a favourable base and strong demand for cooling products amid strong summers. RAC segment grew 2.4x YoY to ₹ 1053 crore led by strong volume growth. Components & mobility segments revenue increased ~3x YoY to ~ ₹ 773 crore. Strong growth in the component & mobility segment is attributable to client additions and consolidation of new businesses
- On the component & mobility front, motors, electronics (PCBs), components revenues increased 130%, 252% and 219% YoY to ₹ 83 crore, ₹ 208 crore and ₹ 387 crore, respectively. Mobility application business (i.e. Sidwal) reported muted revenue growth of 90% YoY to ₹ 95 crore
- Gross margin declined 241 bps YoY due to higher raw material costs. However, EBITDA margin fall was restricted at 52 bps YoY 5.4% through positive operating leverage
- PAT up 4x YoY to ₹ 43 crore mainly tracking higher sales growth in Q1

Q1FY23 Earnings Conference Call highlights:

Demand Outlook:

- Amber's topline growth has surpassed the pre-Covid level in Q1FY23. The company has a strong order book for FY23 and expects to reach the PLI threshold level and qualify for the PLI incentives for the first year
- The company's value market share in RAC and RAC components segment has grown from 21.2% in FY18 when it was listed to 26.6% in FY22
- In Q1FY23, the RAC division grew 138% YoY led by strong demand of cooling products in first half of the calendar year. On the commercial AC front, the company has added new products to serve its customers
- The management expects its RAC and components division to grow faster than the industry growth rate in FY23
- The motors segment grew 131% YoY in Q1FY23. The company has increased its product offerings on both domestic and international fronts. The brushless DC motor division is currently a small part of the company's portfolio. However, the company is planning to start mass production on this front. Amber has a strong order book in the motors segment and has added new products, customers and geographies. The segment is expected to grow by ~30% in FY23
- The electronics segment grew 254% YoY. The company has added new customers through brownfield expansion in South India. Amber has added Boat as its customer and has started supplying smart wearables and hearables. The management expects the smart wearables and hearables market to grow at a rapid pace
- The company's subsidiaries, Amber PR and Pravartaka are witnessing increased traction and are expanding its manufacturing footprint in west and south India
- The mobility application division grew 91% YoY. The company has on boarded new customers who are global leaders. It is developing new products for multiple business categories and has added products to cater to steel plants. It is also developing new products to increase its wallet share in railways and metro. The current order book for the same is at ~₹ 625 crore
- The company's Sri City facility will be operational in the second half of the calendar year and the commercial production is expected to start from mid-December 2022

Margins:

- Despite the strong revenue growth in Q1FY23, margins remain affected due to higher raw material prices, rising interest rates and foreign exchange fluctuations
- With the recent revision in BEE ratings for the AC industry from July 1, 2022, there will be price increases in RACs. The price increase would be ~₹ 800 for 1-ton AC and ₹ 1200 for a 1.5-ton AC
- The company was able to pass on price increases with a quarter's lag

Capex:

- The management maintained its capex guidance of ₹ 400 crore in FY23, out of which some amount has already been used for greenfield expansion at Sri City plant
- The company is in discussion for expansion with two customers and is planning to invest ₹ 150 crore on the same
- In FY24, the company plans to do a capex ~₹ 175 crore mainly for R&D and maintenance

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	22,826	6448	10697	15053	18866	4	4	4	4	160	190	329	496	24	18	27	31	22	19	31	34	141	120	69	46
Amber	7,362	3031	4206	6125	7687	7	7	6	7	83	111	169	269	8	7	11	14	5	6	9	13	88	66	44	27

Source: ICICI Direct Research

Amber Enterprises reported strong revenue growth in Q1FY23 led by strong demand of cooling products and aided by favourable base. The component business also reported good demand traction led by client additions and consolidation of new business. The management has reiterated industry leading growth in FY23 (i.e. 30%+) supported by wallet share gains and addition of new customers. Going forward, we build in revenue CAGR of 35% over FY22-24E. On the margin front, company has witnessed continuous pressure on its margin (5.4% EBITDA margin in Q1FY23 Vs ~8% pre Covid level margins) dragged by change in product mix, higher raw material cost and higher fixed costs (associated with the new plants), resulting in slow PAT recovery (PAT is still 68% of Q1FY20 PAT). Going forward, we build in margin improvement from FY24E onwards supported by improved utilisation of new facilities. We cut our PAT estimate by 17% and ~7% for FY23E and FY24E respectively. We maintain our HOLD rating on the stock with a revised target price of ₹ 2415/share (valuing stock at 30x FY24E EPS).

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	1825.7	707.9	157.9	1936.7	-5.7	Favourable base and strong demand of cooling products helped drive revenue growth in Q1
Other Income	12.8	7.1	81.0	9.4	37	
Raw Material Exp	1563.5	589.2	165.4	1669.9	-6.4	Higher raw material cost dragged gross margin down by 241 bps YoY
Employee cost	45.9	32.3	42.2	42.7	7.4	
Other Expenditure	117.1	44.3	164.5	98.8	18.5	
Total Expenditure	1726.5	665.8	159.3	1811.4	-4.7	
EBITDA	99.2	42.2	135.3	125.3	-20.8	
EBITDA Margin (%)	5.4	6.0	-52 bps	6.5	-103 bps	Higher raw material cost was partially offset by savings in employee cost and other expenses due to positive operating leverage
Depreciation	32.2	24.4	32.0	30.2	6.3	
Interest	21.1	9.1	130.4	18.6	13.5	
Exceptional items						
PBT	58.9	15.8	273.5	85.9	-31.4	
Total Tax	16.0	4.6	249.6	26.6	-39.9	
PAT	42.9	11.2	283.2	59.3	-27.7	PAT growth is attributable to strong topline growth in Q1

Key Metrics

RAC	1,053.0	442.0	138.2	1,002.0	5.1	Favourable base and strong demand of cooling product drove segment revenue up in Q1. Volumes were up by 168% YoY
Component & Mobile Applications	772.7	265.9	190.6	934.7	-17.3	Favourable base, consolidation of new business (AmberPR & Pravartaka) and improved demand for both (AC, Non-AC 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	5,552.9	6,125.5	10.3	6,917.2	7,687.2	11.1	We have revised our revenue estimates upward for FY23E-24E factoring in Q1FY23 performance
EBITDA	388.7	392.0	0.9	518.8	530.4	2.2	
EBITDA Margin (%)	7.0	6.4	-60bps	7.5	6.9	-60bps	We lowered our margin estimates considering higher raw material costs and low operating leverage of upcoming facilities
PAT	203.4	169.1	(16.8)	290.4	269.4	(7.2)	
EPS (₹)	60.4	50.2	(16.8)	86.2	80.0	(7.2)	

Source: ICICI Direct Research

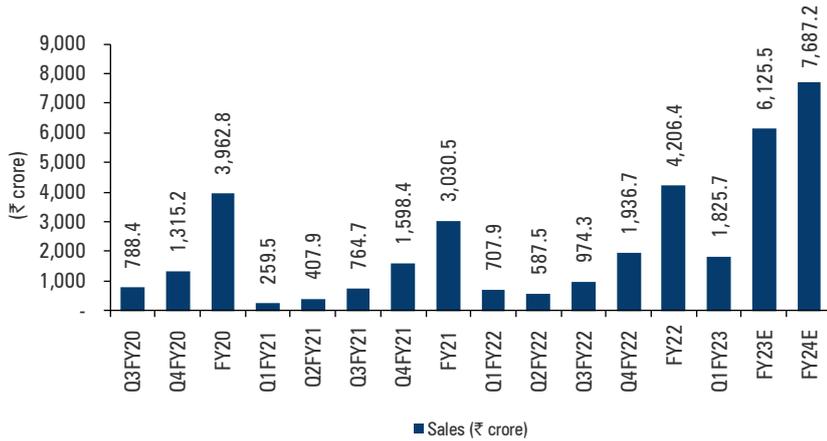
Exhibit 4: Assumptions

(%)	Current					Earlier			Comments
	FY20	FY21	FY22	FY23E	FY24E	FY23E	FY24E		
RAC	39.9	(33.2)	23.9	48.0	20.0	27.0	17.0	We have revised our growth estimates upwards factoring in strong revenue growth in Q1FY23. We model segment revenue CAGR of 33% over FY22-24E	
Component & Mobile Applications	51.0	(8.3)	55.9	43.4	30.7	36.4	30.8	Consolidation of new business, healthy order book of Sidwal and client additions in the component business will drive segment revenue CAGR at ~37% in FY22-24E	

Source: ICICI Direct Research

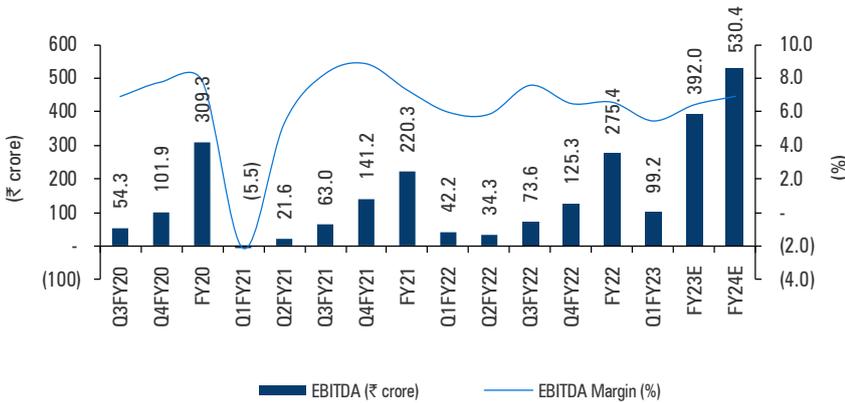
Financial story in charts

Exhibit 5: Revenue trend



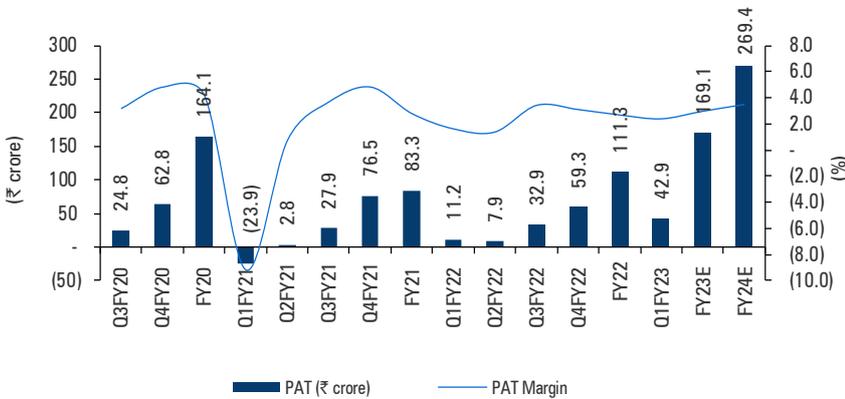
Source: Company, ICICI Direct Research

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	6,125.5	7,687.2
Growth (%)		38.8	45.6	25.5
Expenses				
Raw material expense	2,529.0	3,524.9	5,176.0	6,518.7
Employee expenses	102.1	150.0	177.6	215.2
Other expenses	194.7	251.4	379.8	422.8
Total Operating Exp	2,810.2	3,931.0	5,733.4	7,156.8
EBITDA	220.3	275.4	392.0	530.4
Growth (%)		25.0	42.4	35.3
Depreciation	92.3	107.9	125.6	139.1
Interest	41.0	46.4	83.4	78.2
Other Income	33.1	33.2	49.0	46.1
PBT	120.1	154.3	232.1	359.2
Total Tax	36.9	42.9	63.0	89.8
PAT	83.3	111.3	169.1	269.4

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	169.1	269.4
Add: Depreciation	92.3	107.9	125.6	139.1
(Inc)/dec in Current Assets	-237.7	-421.9	-474.2	-598.3
Inc/(dec) in CL and Provisions	227.9	439.6	271.6	394.4
Others	41.0	46.4	83.4	78.2
CF from operating activities	206.7	283.4	175.4	282.8
(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	14.6	-54.5
CF from investing activities	-417.5	-665.4	-129.8	-204.5
Issue/(Buy back) of Equity	2.2	0.0	0.0	0.0
Inc/(dec) in loan funds	29.0	682.4	-50.0	-80.0
Dividend paid & dividend tax	-4.0	-8.1	-8.1	-8.1
Others	353.3	-19.6	-190.0	-78.2
CF from financing activities	380.4	654.7	-248.1	-166.3
Net Cash flow	169.7	272.7	-202.5	-87.9
Opening Cash	120.3	290.0	562.6	360.1
Closing Cash	290.0	562.6	360.1	272.3

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	1,754.9	2,016.2
Total Shareholders funds	1,604.1	1,734.2	1,788.6	2,049.9
Total Debt	349.5	1,031.8	981.8	901.8
Other non current liabilities	129.1	202.9	202.9	202.8
Total Liabilities	2,082.7	2,969.0	2,973.4	3,154.6
Assets				
Gross Block	1,493.6	1,947.4	2,197.4	2,347.4
Less: Acc Depreciation	457.3	565.2	690.8	830.0
Total Fixed Assets	1,065.0	1,487.7	1,612.1	1,623.0
Goodwill	122.3	145.7	145.7	145.7
Inventory	716.3	840.8	1,090.8	1,369.0
Debtors	1,069.0	1,314.9	1,510.4	1,790.2
Loans and Advances	32.1	1.8	65.0	81.5
Other CA	46.3	128.1	93.7	117.6
Cash	290.0	562.6	360.1	272.3
Total Current Assets	2,153.7	2,848.3	3,120.0	3,630.5
Creditors	1,316.9	1,702.1	1,846.0	2,148.2
Provisions	14.1	18.6	19.8	23.0
Other CL	172.8	222.8	349.2	438.2
Total Current Liabilities	1,503.8	1,943.5	2,215.0	2,609.5
Net current assets	649.9	904.8	905.0	1,021.0
Other non current assets	245.6	430.8	310.6	364.9
Total Assets	2,082.7	2,969.0	2,973.4	3,154.6

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	24.7	33.0	50.2	80.0
Cash EPS	52.1	65.1	87.5	121.3
BV	476.1	514.7	530.8	608.4
DPS	1.2	2.4	2.4	2.4
Operating Ratios (%)				
EBITDA Margin	7.3	6.5	6.4	6.9
PAT Margin	2.7	2.6	2.8	3.5
Asset Turnover	2.0	2.2	2.8	3.3
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	9.5	13.1
RoCE	7.7	6.8	10.6	13.9
RoIC	8.2	8.2	11.1	14.5
Valuation Ratios (x)				
P/E	88.4	66.1	43.5	27.3
EV / EBITDA	33.2	28.0	20.4	15.1
EV / Net Sales	2.4	1.8	1.3	1.0
Market Cap / Sales	2.4	1.8	1.2	1.0
Price to Book Value	4.6	4.2	4.1	3.6
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	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)			RoE (%)				
			FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints (ASIPAI)	Buy	3,27,211	33.4	32.2	47.1	56.6	102.0	106.1	72.4	60.3	66.5	67.5	48.2	40.6	29.6	27.1	36.4	39.1	25.0	23.0	30.2	31.9
Berger Paints (BERPAI)	Hold	64,689	7.4	8.6	9.9	12.3	89.9	77.7	67.2	54.1	54.2	48.8	42.8	35.3	24.9	23.3	27.6	31.0	21.3	21.2	25.2	27.7
Kansai Nerolac (KANNER)	Hold	26,838	9.8	6.9	11.6	13.4	50.6	71.7	43.0	37.2	31.8	41.3	26.8	23.0	17.2	12.1	19.5	21.1	13.2	9.2	14.7	15.6
Pidilite Industries (PIDIND)	Hold	1,33,907	22.2	23.8	26.0	32.2	118.9	111.0	101.6	81.9	79.4	72.4	67.6	54.9	23.8	22.2	22.6	25.6	20.2	18.8	19.1	21.4
Bajaj Electricals (BAJELE)	Hold	13,334	16.5	10.8	22.0	29.5	70.4	107.2	52.8	39.4	44.8	52.9	39.4	30.0	15.1	13.5	19.1	22.1	10.7	7.8	14.9	17.2
Crompton Greaves(CROGR)	Hold	23,254	9.8	9.2	8.4	10.5	37.7	40.2	44.3	35.3	30.8	30.3	27.1	22.4	34.4	16.2	16.0	19.7	31.9	24.0	20.5	22.6
Havells India (HAVIND)	Hold	81,669	16.7	19.1	19.4	25.1	78.6	68.4	67.4	52.1	51.4	45.2	45.4	36.0	24.9	23.7	24.6	31.4	20.1	19.9	20.9	26.6
Polycab India (POLI)	Buy	36,180	59.3	61.4	67.1	77.6	40.8	39.4	36.1	31.2	31.7	27.7	23.7	20.4	20.6	20.2	21.8	22.1	17.9	15.6	16.5	16.7
Symphony (SYMLIM)	Hold	6,380	15.3	17.3	26.1	34.8	59.6	52.7	34.9	26.2	44.6	38.5	26.8	20.2	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	Hold	10,228	4.7	5.3	5.4	6.8	50.3	44.4	43.9	35.1	31.9	30.1	28.6	22.9	23.9	21.2	23.7	26.6	16.7	16.2	17.9	20.3
Voltas Ltd (VOLTAS)	Hold	32,213	16.0	15.3	18.8	25.1	60.9	63.7	51.7	38.9	49.5	46.3	38.4	29.2	15.0	14.0	17.5	20.3	10.6	9.2	12.6	14.9
Amber Enterprises (AMBEN)	Hold	7,362	24.7	33.0	50.2	80.0	88.4	66.1	43.5	27.3	33.2	28.0	20.4	15.1	7.7	6.8	10.6	13.9	5.2	6.4	9.5	13.1
Dixon Technologies (DIXTEC)	Buy	22,826	27.3	32.1	55.4	83.6	141.0	119.9	69.4	46.0	79.6	60.6	39.3	28.0	23.5	17.7	27.0	31.4	21.7	19.1	30.9	34.1
Supreme Indus (SUPIND)	Buy	23,983	77.0	76.2	77.1	87.0	24.5	24.8	24.5	21.7	18.1	18.9	19.0	16.4	33.1	25.9	24.2	24.9	30.9	25.2	23.9	24.1
Astral Ltd (ASTPOL)	Hold	39,032	20.3	24.4	28.8	35.1	95.6	79.6	67.4	55.4	59.9	50.9	43.5	36.2	27.5	26.6	27.3	28.5	21.5	21.0	21.4	22.3

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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