



## 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 July 08, 2022 **29.63**

## Medium Risk

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

Source: Morningstar

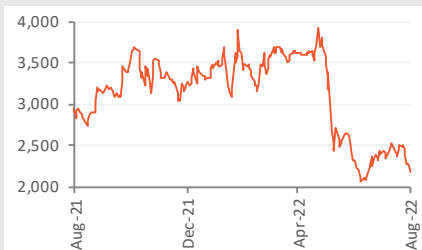
## Company details

Market cap:	Rs. 7,362 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	26.9
DII	8.8
Others	24.1

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-10.6	-37.1	-37.4	-23.8
Relative to Sensex	-18.7	-45.3	-37.2	-31.6

Sharekhan Research, Bloomberg

## Amber Enterprises

## Q1 a mixed bag, near-term margin headwinds

## Capital Goods

## Sharekhan code: AMBER

Reco/View: Buy

↔

CMP: Rs. 2,185

Price Target: Rs. 2,870

↓



Upgrade



Maintain



Downgrade

## Summary

- Amber Enterprises' (Amber) Q1FY2023 performance was largely driven by robust revenue, while OPM remained under pressure due to inflationary headwinds.
- The company expects to outpace the expected industry volume growth of 28-30% in FY2023 through new customers and product additions in components.
- 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.
- Despite muted Q1 on margin front, long-term growth opportunities are intact. The stock has corrected sharply in the recent past and current price levels indicate a good entry point for long-term investors. We maintain Buy with a revised PT of Rs. 2,870.

Amber Enterprises' (Amber) Q1FY2023 performance exceeded our expectations, largely driven by strong beat on revenue but OPM was below our expectations. Sales grew by 158% y-o-y to Rs1,826cr. Quarterly sales were able to surpass the pre-pandemic sales level. Operating profit grew by 135% y-o-y to Rs99cr, however operating margin continued to remain under pressure and came lower at 5.4% (down 50 bps y-o-y and 116 bps lower as compared to our estimates) despite passing on the commodity price increase to its customers with a quarterly lag. PAT increased from Rs12crore to Rs42crore in Q1FY23 on a y-o-y basis. Considering Q1 sales and order book for the rest of the year, the company will be able to reach the PLI threshold level and qualify for PLI incentives for the first year. Its SriCity plant will be operational in H2FY23.

## Key positives

- Strong y-o-y revenue growth in RACs and components (219% y-o-y) along with good performance from mobility and motors division.
- The company recorded RAC volumes of 1.28mn in Q1FY23.
- Amber plans to expand into the consumer durables business – microwave, ovens, fans, water purifiers, and telecom equipments.

## Key negatives

- OPM fell both y-o-y and qoq by 52bps/103bps.
- The company recorded forex loss of ~Rs23crore during the quarter.

## Management Commentary

- Amber expects the industry to grow at 28-30% in volumes in FY23, while Amber is expected to outpace the industry's growth.
- The company registered volumes of around 1.28 million during Q1 in the RAC segment. The inventory level in the industry has normalized.
- In Q1FY23, it incurred forex loss of ~Rs23cr mainly on payables. Adjusting for this and some other one-time expenses, the operating margin is at similar level of Q4FY23.
- It expects a capex of Rs350-400crore in FY23 on a consolidated basis including greenfield plant at Sri City, Andhra Pradesh. Net debt is at Rs625crore.

Revision in estimates – We have largely maintained our estimates for FY2023-FY2024E.

## Our Call

**Valuation – Retain Buy with a revised PT of Rs. 2,870:** 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. The stock has corrected sharply in the recent past and we believe near-term margin pressure and global headwinds are largely factored in. We maintain Buy with a revised price target (PT) of Rs. 2,870.

## Key Risks

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

## Valuation (Consolidated)

Particulars	FY21	FY22	FY23E	FY24E
Revenue	3,031	4,206	5,414	6,689
OPM (%)	7.3	6.5	6.8	7.6
PAT	82	109	147	237
Growth (%)	-48.5	33.3	35.1	61.2
EPS (Rs.)	24.2	32.3	43.6	70.3
P/E (x)	90.2	67.7	50.1	31.1
EV/EBITDA (x)	40.7	43.1	32.6	23.7
RoCE (%)	8.6	7.9	9.2	12.6
RoE (%)	6	6.5	8.1	11.8

Source: Company; Sharekhan estimates

## Top-line drives the performance, OPM disappoints

Amber's Q1FY2023 performance exceeded our expectations, largely driven by strong beat on revenue, but OPM was below our expectations. Sales grew by 158% y-o-y to Rs. 1,826 crore. Quarterly sales were able to surpass pre-pandemic sales level. Operating profit grew by 135% y-o-y to Rs. 99 crore; however, operating margin continued to remain under pressure and came lower at 5.4% (down 50 bps y-o-y and 116 bps lower as compared to our estimates) despite passing on the commodity price increase to its customers with a quarterly lag. PAT increased from Rs. 12 crore to Rs. 42 crore in Q1FY23 y-o-y. Considering Q1 sales and order book for the rest of the year, the company will be able to reach the PLI threshold level and qualify for PLI incentives for the first year. The company's SriCity plant will be operational in H2FY2023.

## Robust medium to long-term growth outlook

Management expects RAC demand to remain strong with industry growth at 28-30% y-o-y in FY23. 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 SriCity unit getting operational in H2FY2023. Amber has carried out multiple acquisitions in the recent past, which have strengthened its product offerings. Share of components in total revenue is likely to increase further due to increased domestic outsourcing by brands. Amber is also focusing on augmenting exports and aims to sell ~3 lakh RAC units in FY2023. This shall help the company combat the seasonal nature of domestic AC sales.

## Q1FY2023 Concall Highlights

- ♦ **RAC industry to grow at 28-30% in FY2023** – The company expects the industry to report volumes of ~8 mn in FY23. Amber expects the industry to grow at 28-30% in volumes in FY2023, while Amber would grow 2-3% higher than the industry, given addition of new products in RAC components. The company reported volumes of around 1.28 million during Q1 in the RAC segment. Inventory level in the industry has normalised.
- ♦ **Forex loss impacts operating profit:** In Q1FY2023, the company incurred forex loss of ~Rs. 23 crore mainly on payables and ~Rs. 1.9 crore in interest cost on MTM basis. Adjusting for these expenses, the operating margin is at similar level of Q4FY23.
- ♦ **BEE table revision:** The new Bureau of Energy Efficiency (BEE) Star rating has been implemented. The prices on models are likely to increase on an average of Rs. 1,000-1,250. Since, the price increase is about 3-4% on premium models, there may not be much impact on the demand in premium models. Amber expects a smooth transition to new rating guidelines.
- ♦ **Value market share to grow by 100-200 bps:** Amber's market share in value terms including both finished goods and components (such as completely knocked-down (CKD), semi knocked-down (SKD) is 26.6%. In RAC, Amber's volume share is roughly – 23%, while the rest of the 76% market can be catered via its offerings in components such as gas, compressors, and fans. The company expects to increase its market share by 100-200 bps in the medium term as it adds new customers and components in its portfolio.
- ♦ **Encouraging performance by all the segments/subsidiaries:** In electronics (including Ever Electronics and ILJIN), the company recorded sales of Rs. 208 crore, while EBITDA stood at Rs. 8.9 crore (vs. loss in Q1FY2022). The motors division's sales were at Rs. 83 crore, while EBITDA stood at Rs. 10.2 crore. The mobility division's sales were at Rs. 94 crore and EBITDA was at Rs. 25.8 crore. Pravartaka and Amber PR (Pasio India) had total sales of ~Rs. 75 crore and EBITDA of Rs. 8.1 crore.

- ♦ **Strong guidance for FY2023:** Amber expects the motor division to grow more than 30% in FY2023, electronics to grow more than 35%, and mobility to grow at more than 15%. Moreover, the newly acquired subsidiaries – Pravartaka and Amber PR would report sales growth of more than 25% in FY2023.
- ♦ **ROCE to be at 17-20% in the next 2-3 years:** We expect ROCE to improve significantly from the current levels and is expected to be at 17%-20% in the next 2-3 years. The expected improvement in ROCE is despite investments in capex.
- ♦ **Capex plans –** The company maintained its capex guidance of Rs. 350 crore-400 crore on a consolidated basis. This includes maintenance, R&D, as well as greenfield capex for its Sri City, Andhra Pradesh plant, which is likely to be operational in FY2023.
- ♦ **Net debt at Rs. 625 crore:** Gross debt stood at Rs. 1,300 crore as of June-end, while net debt was at Rs. 625 crore.

Quarterly consolidated results

					Rs cr
Particulars	Q1FY23	Q1FY22	YoY%	Q4FY22	QoQ%
Total Revenue	1825.7	707.9	157.9	1936.7	-5.7
EBITDA	99.2	42.2	135.3	125.3	-20.8
Depreciation	32.2	24.4	32	3	971.8
Interest	21.1	9.1	130.4	18.6	13.5
Other Income	12.8	7.1	81	9.4	37
PBT	58.9	15.8	273.4	113.1	-48
Adjusted PAT	42.1	12.4	238.6	57.2	-26.4
Adjusted EPS (Rs.)	12.5	3.7	238.6	17	-26.4
<b>Margin (%)</b>			<b>BPS</b>		<b>BPS</b>
OPM	5.4	6	-52	6.5	-103
NPM	2.3	1.8	55	3	-65
Tax Rate	27.1	29	-185	23.5	365

Source: Company; 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 such as 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.

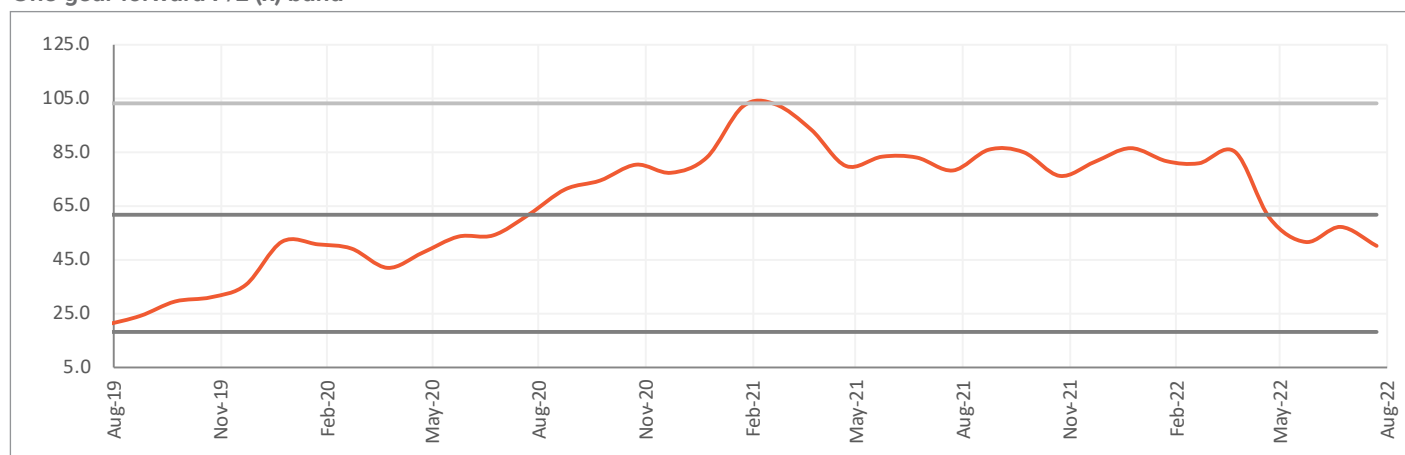
### ■ Company Outlook – Long runway for growth

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 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 with the management confident of capturing opportunities with better volumes 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. 2,870

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. The stock has corrected sharply in the recent past and we believe near-term margin pressure and global headwinds are largely factored in. We maintain Buy with a revised PT of Rs. 2,870.

One-year forward P/E (x) band



Source: Sharekhan Research

## About company

Incorporated in 1990, Amber has emerged as a market leader in the Indian Room AC OEM/ODM industry. The company's comprehensive product portfolio includes room AC (Indoor and Outdoor units as well as window ACs) and reliable critical components, which have 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, case liner etc. 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. 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 a majority of customers for over five years and has a marquee customer base as eight out of top 10 RAC brands are its clients.

## Investment theme

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

- ♦ Lower demand offtake due to economic slowdown might impact revenue growth momentum and raw-material price volatility and forex rate fluctuation can impact profitability.
- ♦ Lack of diversified revenue base in terms of product categories and high revenue concentration with few customers pose a threat to revenue.

## 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.	4.98
3	Goldman Sachs Funds - Goldman Sachs Emerging Markets	4.15
4	ICICI Prudential Life	3.20
5	Vanguard Group	1.77
6	Goldman Sachs Trust-Goldman Sachs Emerging Markets	1.72
7	Akash Bhanshali	1.48
8	Principal Financial Group	1.15
9	William Blair	1.15
10	Newport Asia Institutional	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

# Sharekhan

by BNP PARIBAS

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