

October 23, 2022

Higher operating cost drags EBITDA margin...

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

Q2FY23 Results: Higher operating cost in Q2 delayed a margin recovery. Strong demand for component drove topline.

- Favourable base and strong demand for components (aided by new customer additions) resulted in consolidated revenue growth of ~28% YoY to ~₹ 750 crore
- EBITDA margin fell 95 bps YoY to 4.9% dragged by one-time forex losses (of ₹ 7.5 crore) and other operating costs associated with new plant
- Amber reported loss of ₹ 2.3 crore against profit of ~₹ 8 crore dragged by sharp fall in EBITDA margin and higher interest costs

What should investors do? Amber's share price has grown by ~2.6x over the past four years (from ~₹ 837 in October 2018 to ~₹ 2150 levels in October 2022).

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

Target Price and Valuation: We value Amber at ₹ 2395 i.e. 32x P/E on FY24E EPS

Key triggers for future price performance:

- The AC industry is likely to grow 30% YoY in FY23E supported by a 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 Govt
- New export opportunities (of components) in the US and Middle East

Alternate Stock Idea: We also like Polycab India in our coverage.

Polycab is the market leader in the wire & cable business with an organised market share of 22-24%. In the FMEG segment, it is growing through new product launches and dealer addition across India. Robust b/s with a three-year average RoE, RoCE of 18%, 22%, respectively

- BUY with a target price of ₹ 3300



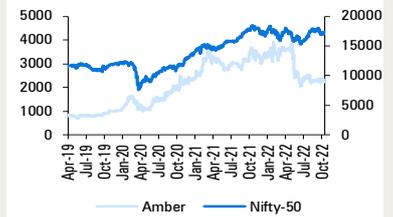
Particulars

Particular	Amount
Market Cap (₹ Crore)	7,244.1
Total Debt (FY22) (₹ Crore)	1,031.8
Cash & Inv (FY22) (₹ Crore)	562.6
EV (₹ Crore)	7,713.4
52 week H/L	4026/ 2030
Equity capital (₹ Crore)	33.7
Face value (₹)	10.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	40.3	40.3	40.3	40.3	40.3
FII	29.0	29.1	28.1	26.9	26.4
DII	8.9	9.3	9.2	8.8	13.9
Others	21.8	21.4	22.4	24.1	19.4

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%	6066.9	7616.9	35%
EBITDA	212.9	309.3	220.3	275.4	9%	376.1	510.3	36%
EBITDA Margin(%)	7.7	7.8	7.3	6.5		6.2	6.7	
Net Profit	94.8	164.1	83.3	111.3	6%	154.0	248.4	49%
EPS (₹)	30.1	52.2	24.7	33.0		45.7	73.7	
P/E(x)	71.3	41.2	87.0	65.1		47.0	29.2	
RoE (%)	9.6	14.5	5.2	6.4		8.7	12.3	
RoCE (%)	12.3	14.3	7.7	6.8		10.2	13.2	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Strong topline growth on favourable base

- Consolidated revenue up ~28% YoY to ~₹ 750.4 crore, on a favourable base and strong demand for components. RAC & components segment grew marginally by 5.3% YoY to ₹ 357 crore supported by strong growth in components. However, RAC sales declined 25% due to lower demand amid extended monsoon and destocking of old inventories before the implementation of new energy norms
- Mobility segment revenue increased ~48% YoY to ~ ₹ 105 crore. Electronics segment revenue grew ~76% YoY to ₹ 241 crore as a result of addition of wearables and hearables segment
- Gross margin up 180 bps YoY due to lower raw material costs and change in product mix. However, EBITDA margin declined 95 bps YoY to 4.9% due to higher other operating expenses including forex loss of ₹ 7.5 crore
- Net loss of ₹ 2.3 crore tracking lower EBITDA as well as higher interest outgo (up ~281% YoY mainly due to higher debt)

Q2FY23 Earnings Conference Call highlights:

Demand Outlook

- Amber saw a slowdown in demand for RACs from July to mid-September 2022 as there was destocking due to revised BEE norms. With inventory at normal level, the company expects demand to rise in Q3 and Q4FY23. However, a slight negative impact of BEE norms would also continue in Q3FY23
- The management reiterated RAC industry volume growth guidance of ~33% YoY to 8.5 mn units in FY23
- The components division is growing at a faster pace led by strong order book, new customer addition and expansion in newer geographies like Chennai and Pantnagar
- For the motors segment, the company has shifted to a bigger facility in Faridabad to cater to the growing demand
- Amber is in the process of receiving approvals for export of motors and expects to receive large orders in FY24
- The management expects the motor division to grow more than 30% in FY23 on the back of a strong order book with new product additions and geographical expansion
- On the electronics front, the company has added Boat as its customer and has started a vertical for wearables and hearables. Amber has received healthy orders for the same
- The company is expanding the manufacturing footprint of its electronic division with new facility in South India to cater to a large MNC customer
- In the mobility division, Amber has increased its impetus on infrastructure development and has an order book of more than ₹ 650 crore
- Amber's PLI threshold investments are on track and the company is likely to receive PLI benefit from FY24. The PLI benefit for FY23 is expected to be ₹ 15 crore and ₹ 30 crore in FY24

Margins & Profitability

- EBITDA margin was affected in Q2FY23 mainly due to Forex loss amounting to ~₹ 7.5 crore
- The interest cost went up ~281% YoY to ₹ 24 crore mainly for capex incurred and higher interest rates
- The management has given guidance of 25-20% increase in EBITDA on an absolute basis
- 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 passes on price revisions with a quarter's lag

Capex

- The management has revised its capex allocation from ₹ 400 crore to ₹ 600 crore in FY23
- The company's Sri City plant is expected to be operational by Q3FY23

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Dixon	25,372	6448	10697	15522	19499	4	4	4	4	160	190	344	507	24	18	28	31	22	19	32	34	157	133	74	50
Amber	7,244	3031	4206	6067	7617	7	7	6	7	83	111	154	248	8	7	10	13	5	6	9	12	87	65	47	29

Source: ICICI Direct Research

Amber Enterprises' Q2FY23 profitability was hit by higher operating costs associated with new plants, one-time forex losses and ~4x jump in interest costs on a YoY basis. For H1FY23, EBITDA margin at 5.2% was much lower than its pre-Covid level EBITDA margin of 8%. The management has guided for improvement in EBITDA margins from H2FY23 onwards supported by improved product mix and ease of teething issues associated with new plants. On the revenue front, H1FY23 revenue came in 39% higher than its pre-Covid level revenues led by strong growth in the component business. The component business reported good demand traction led by client additions and consolidation of new business (Amber PR and Pravartaka). The company has guided of increased enquiries on both component and finished goods exports and stated same will start contributing from FY25. The management has reiterated industry leading growth for the company 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. We cut our PAT estimate by ~9% and ~8% for FY23E and FY24E, respectively, factoring in downward revision of our EBITDA margin estimates. We maintain our HOLD rating on the stock with a revised target price of ₹ 2395/share (valuing stock at 32x FY24E EPS)

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	750.4	587.5	27.7	1825.7	-58.9	Favourable base and strong demand of component drove overall topline
Other Income	12.2	8.1	49.6	12.8	-5	
Raw Material Exp	592.4	474.4	24.9	1563.5	-62.1	Lower raw material prices and change in product mix helped drive gross margin up by 180 bps YoY
Employee cost	47.6	35.3	35.0	45.9	3.8	
Other Expenditure	73.7	43.5	69.3	117.1	-37.1	One-time forex loss of ₹ 7.5 crore and low utilisation of new capacities led to sharp increase in other expenditure
Total Expenditure	713.8	553.2	29.0	1726.5	-58.7	
EBITDA	36.7	34.3	6.9	99.2	-63.0	
EBITDA Margin (%)	4.9	5.8	-95 bps	5.4	-55 bps	Benefit of lower raw material costs was completely offset by other operating expenses in Q2 resulting 95 bps YoY drop in EBITDA margin
Depreciation	31.8	26.2	21.2	32.2	-1.1	
Interest	24.4	6.4	280.7	21.1	15.6	Sharp increase in interest costs is largely attributable to higher debt on the book
Exceptional items						
PBT	-7.3	9.8	-174.6	58.9	-112.4	
Total Tax	-5.0	1.9	-361.5	16.0	-131.5	
PAT	-2.3	7.9	-129.0	42.9	-105.3	Sharp increase in interest costs and lower EBITDA margin dragged overall PAT in Q2

Key Metrics

RAC & components	357.0	339.0	5.3	1,440.0	-75.2	Consolidation of new business (AmberPR & Pravartaka) and strong demand of non AC components helped drive demand for RAC & components division. However RAC sales declined sharply by 25% dragged by lower offtake amid change in BEE norms and extended monsoon in Q2
Motor Division	47.0	40.0	17.5	83.0	-43.4	Favourable base and customer addition helped drive segment revenue
Electronic Division	241.0	137.0	75.9	208.0	15.9	Addition of new business segment 'Hearables & Wearables' (also added BoAt as a customer) drove overall segment revenue
Mobility Division	105.0	71.0	47.9	95.0	10.5	Revival in infrastructure expenditure (in transport segments) drove overall segment revenue in Q2

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ crore)	Y21	FY23E		FY24E			Comments
	Chg	Old	New	% Chg	Old	New	
Revenue	6,125.5	6,066.9	(1.0)	7,687.2	7,616.9	(0.9)	We revise our revenue estimates upward for FY23E-24E factoring in Q1FY23 performance
EBITDA	392.0	376.1	(4.0)	530.4	510.3	(3.8)	
EBITDA Margin (%) bps	6.4	6.2	-20bps	6.9	6.7	-20bps	We lower our margin estimates considering higher raw material costs and low operating leverage of upcoming facilities
PAT	169.1	154.0	(8.9)	269.4	248.4	(7.8)	
EPS (₹)	50.2	45.7	(9.0)	80.0	73.7	(7.8)	

Source: ICICI Direct Research

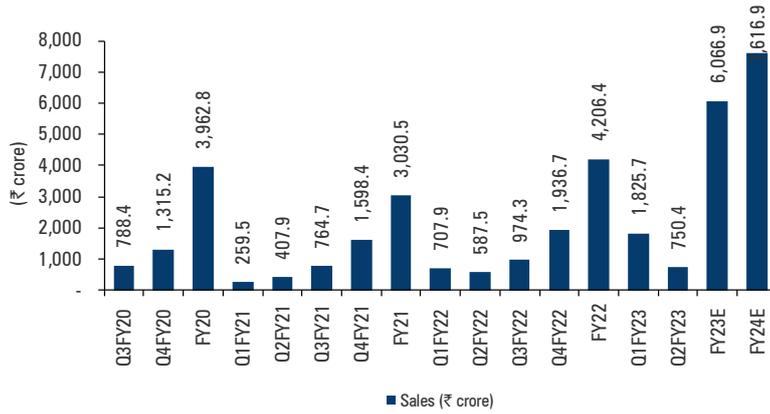
Exhibit 4: Assumptions

(%)	Current				Earlier			Comments
	FY20	FY21	FY22	FY23 E	FY24E	FY23E	FY24E	
RAC & component	36.7	(23.5)	36.6	49.4	22.8	48.0	20.0	We build in segment revenue CAGR of 35% over FY22-24E on a favourable base and pick-up in plant utilisation of newly acquired business
Mobility & other components	69.7	(23.6)	45.0	30.2	34.0	43.4	31.0	Addition of new business segment (hearables & wearables), customer additions and healthy order book of Sidwal will drive segment revenue CAGR at ~32% over FY22-24E

Source: ICICI Direct Research

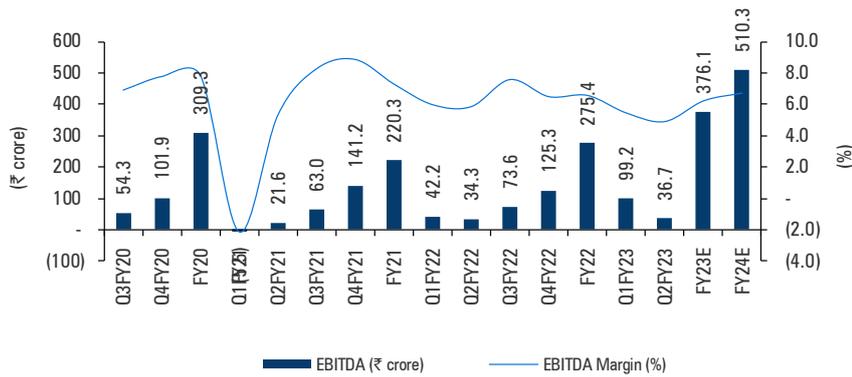
Financial story in charts

Exhibit 5: Revenue trend



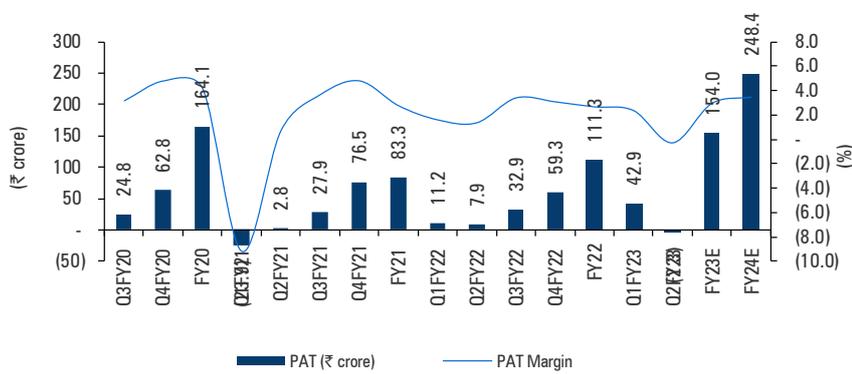
Source: Company, ICICI Direct Research

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	6,066.9	7,616.9
Growth (%)		38.8	44.2	25.5
Expenses				
Raw material expense	2,529.0	3,524.9	5,108.3	6,413.4
Employee expenses	102.1	150.0	188.1	236.1
Other expenses	194.7	251.4	394.3	457.0
Total Operating Exp	2,810.2	3,931.0	5,690.7	7,106.6
EBITDA	220.3	275.4	376.1	510.3
Growth (%)		25.0	36.6	35.7
Depreciation	92.3	107.9	124.4	137.9
Interest	41.0	46.4	93.2	87.0
Other Income	33.1	33.2	48.5	45.7
PBT	120.1	154.3	207.1	331.2
Total Tax	36.9	42.9	53.2	82.8
PAT	83.3	111.3	154.0	248.4

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	154.0	248.4
Add: Depreciation	92.3	107.9	124.4	137.9
(Inc)/dec in Current Assets	-237.7	-421.9	-447.8	-594.0
Inc/(dec) in CL and Provisions	227.9	439.6	250.4	391.8
Others	41.0	46.4	93.2	87.0
CF from operating activities	206.7	283.4	174.1	271.0
(Inc)/dec in Investments	0.0	-105.6	105.6	0.0
(Inc)/dec in Fixed Assets	-162.0	-530.6	-500.0	-150.0
Others	-255.5	-29.2	16.6	-54.0
CF from investing activities	-417.5	-665.4	-377.7	-204.0
Issue/(Buy back) of Equity	2.2	0.0	0.0	0.0
Inc/(dec) in loan funds	29.0	682.4	-50.0	-30.0
Dividend paid & dividend tax	-4.0	-8.1	-8.1	-8.1
Others	353.3	-19.6	-199.8	-87.0
CF from financing activities	380.4	654.7	-257.9	-125.1
Net Cash flow	169.7	272.7	-461.6	-58.2
Opening Cash	120.3	290.0	562.6	101.1
Closing Cash	290.0	562.6	101.1	42.9

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	1,739.8	1,980.0
Total Shareholders funds	1,604.1	1,734.2	1,773.5	2,013.7
Total Debt	349.5	1,031.8	981.8	951.8
Other non current liabilities	129.1	202.9	202.9	202.8
Total Liabilities	2,082.7	2,969.0	2,958.2	3,168.4
Assets				
Gross Block	1,493.6	1,947.4	2,447.4	2,597.4
Less: Acc Depreciation	457.3	565.2	689.6	827.5
Total Fixed Assets	1,065.0	1,487.7	1,863.3	1,875.5
Goodwill	122.3	145.7	145.7	145.7
Inventory	716.3	840.8	1,080.4	1,356.4
Debtors	1,069.0	1,314.9	1,495.9	1,773.8
Loans and Advances	32.1	1.8	64.3	80.8
Other CA	46.3	128.1	92.8	116.5
Cash	290.0	562.6	101.1	42.9
Total Current Assets	2,153.7	2,848.3	2,834.5	3,370.4
Creditors	1,316.9	1,702.1	1,828.4	2,128.6
Provisions	14.1	18.6	19.6	22.8
Other CL	172.8	222.8	345.9	434.2
Total Current Liabilities	1,503.8	1,943.5	2,193.9	2,585.6
Net current assets	649.9	904.8	640.7	784.8
Other non current assets	245.6	430.8	308.6	362.5
Total Assets	2,082.7	2,969.0	2,958.2	3,168.4

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	24.7	33.0	45.7	73.7
Cash EPS	52.1	65.1	82.6	114.6
BV	476.1	514.7	526.3	597.7
DPS	1.2	2.4	2.4	2.4
Operating Ratios (%)				
EBITDA Margin	7.3	6.5	6.2	6.7
PAT Margin	2.7	2.6	2.5	3.3
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	8.7	12.3
RoCE	7.7	6.8	10.2	13.2
RoIC	8.2	8.2	9.5	12.6
Valuation Ratios (x)				
P/E	87.0	65.1	47.0	29.2
EV / EBITDA	32.7	27.6	21.6	16.0
EV / Net Sales	2.4	1.8	1.3	1.1
Market Cap / Sales	2.4	1.7	1.2	1.0
Price to Book Value	4.5	4.2	4.1	3.6
Solvency Ratios				
Debt / Equity	0.2	0.6	0.6	0.5
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	CMP (₹)	TP(₹)	Rating	M Cap		EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
				(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	
Asian Paints (ASIPAI)	3,092	3,685	Buy	2,96,523	33.4	32.2	40.8	54.2	92.5	96.1	75.8	57.1	60.1	61.1	50.4	38.8	29.6	27.1	32.5	38.7	25.0	23.0	27.3	32.1	
Berger Paints (BERPAI)	585	740	Hold	56,821	7.4	8.6	9.9	12.3	78.9	68.2	59.0	47.6	47.6	42.9	37.6	31.0	24.9	23.3	27.6	31.0	21.3	21.2	25.2	27.7	
Kansai Nerolac (KANNER)	479	560	Hold	25,814	9.8	6.9	11.6	13.4	48.7	69.0	41.4	35.7	30.6	39.8	25.8	22.1	17.2	12.1	19.5	21.1	13.2	9.2	14.7	15.6	
Pidlite Industries (PIDIND)	2,638	3,010	Hold	1,33,958	22.2	23.8	27.8	39.9	119.0	111.0	94.8	66.1	79.5	72.4	63.3	45.1	23.8	22.2	23.9	30.0	20.2	18.8	20.2	25.0	
Sheela Foam (SHEFOA)	2,693	3,650	BUY	13,136	48.7	44.5	51.8	65.9	55.3	60.5	52.0	40.8	36.4	42.4	36.2	28.7	24.3	18.0	19.6	22.6	20.1	15.6	16.4	18.8	
Bajaj Electricals (BAJELE)	1,161	1,340	BUY	13,334	16.5	10.8	21.0	31.7	70.4	107.2	55.2	36.7	44.8	52.9	36.4	25.5	15.1	13.5	19.6	24.2	10.7	7.8	14.4	18.3	
Crompton Greaves(CROGR)	374	415	Hold	23,442	9.8	9.2	8.4	10.5	38.0	40.5	44.7	35.6	31.0	30.6	27.3	22.6	34.4	16.2	16.0	19.7	31.9	24.0	20.5	22.6	
Havells India (HAVIND)	1,166	1,565	Buy	73,027	16.7	19.1	17.6	27.1	70.0	61.1	66.1	43.1	45.9	40.3	44.0	30.0	24.9	23.7	23.0	33.8	20.1	20.0	19.4	28.7	
Polycab India (POLI)	2,698	3,300	Buy	40,320	59.3	61.4	76.3	86.8	45.5	44.0	35.3	31.1	35.5	31.0	22.6	20.0	20.6	20.2	24.7	23.8	17.9	15.6	18.4	18.0	
Symphony (SYMLIM)	854	1,215	Hold	5,974	15.3	17.3	26.1	34.8	55.8	49.4	32.7	24.5	41.7	36.0	25.1	18.9	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4	
V-Guard Ind (VGUARD)	253	255	Hold	10,918	4.7	5.3	5.4	6.8	53.7	47.4	46.8	37.5	34.1	32.1	30.6	24.5	23.9	21.2	23.7	26.6	16.7	16.2	17.9	20.3	
Voltas Ltd (VOLTAS)	866	1,075	Hold	28,642	16.0	15.3	18.8	25.1	54.2	56.6	46.0	34.5	43.9	41.1	34.1	25.9	15.0	14.0	17.5	20.3	10.6	9.2	12.6	14.9	
Amber Enterprises (AMBEN)	2,150	2,395	Hold	7,244	24.7	33.0	45.7	73.7	87.0	65.1	47.0	29.2	32.7	27.6	21.6	16.0	7.7	6.8	10.2	13.2	5.2	6.4	8.7	12.3	
Dixon Technologies (DIXTEC)	4,275	4,730	Buy	25,372	27.3	32.1	57.9	85.4	156.8	133.3	73.8	50.1	88.5	67.3	41.5	30.3	23.5	17.7	27.8	31.5	21.7	19.1	31.8	34.2	
Supreme Indus (SUPIND)	2,092	2,510	Buy	26,574	77.0	76.2	78.1	89.0	27.2	27.4	26.8	23.5	20.1	21.0	20.7	17.7	33.1	25.9	24.6	25.4	30.9	25.2	24.2	24.4	
Astral Ltd (ASTPOL)	2,003	2,650	Hold	40,237	20.3	24.4	25.8	35.9	98.6	82.0	77.8	55.8	61.8	52.5	46.3	35.3	27.5	26.6	25.5	29.3	21.5	21.0	19.6	23.1	
Time Techno (TIMTEC)	98	125	BUY	2,216	4.8	8.5	10.1	13.1	20.6	11.5	9.7	7.5	7.2	5.8	5.0	4.3	8.7	11.3	12.8	14.6	5.7	9.3	10.7	12.5	
Moldtek Packaging (MOLPLA)	917	935	Hold	3,050	17.2	20.4	24.3	30.9	53.4	45.0	37.8	29.7	33.2	25.6	21.5	17.3	20.1	18.6	26.1	26.5	18.7	13.9	22.6	22.8	

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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