



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 Mar 08, 2023

29.63

Medium Risk

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

Source: Morningstar

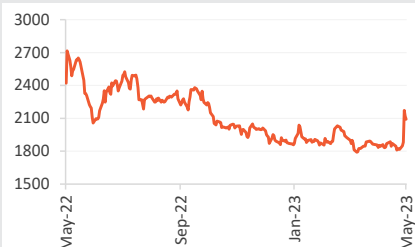
Company details

Market cap:	Rs. 7,052 cr
52-week high/low:	Rs. 2,794/ 1,763
NSE volume: (No of shares)	2.3 lakh
BSE code:	540902
NSE code:	AMBER
Free float: (No of shares)	2.0 cr

Shareholding (%)

Promoters	40.3
FII	27.1
DII	11.5
Others	21.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.8	12.7	4.1	-16.8
Relative to Sensex	11.0	12.0	4.4	-30.1

Sharekhan Research, Bloomberg

Amber Enterprises

Robust Q4, emerging as a component player

Capital Goods

Sharekhan code: AMBER

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 2,093

Price Target: Rs. 2,450



Summary

- Amber Enterprises' (Amber) Q4FY2023 performance was commendable on all fronts, with strong sales and margin improvement due to good summer sales in Q4.
- Structural changes in the manufacturing landscape of RAC have transformed the company's business model. The company has increased its market share in the manufacturing industry of RACs from 26% to 29% in FY2023.
- The company expects ROCE to improve in the next 3-4 years, as the capex declines over a period of time. The company has guided for 30% EBITDA CAGR for the next two years.
- We maintain our Buy rating with a revised PT of Rs. 2,450 (based on FY2025E EPS), as we expect profitability to improve, led by ramp-up in capacity utilisation and traction in exports.

Amber Enterprises' (Amber) Q4FY2023 performance was above our expectations on all fronts. Sales grew by 55% y-o-y to Rs. 3,003 crore. Sales were driven by RAC and components division, which grew by 55% y-o-y, contributing ~80% to total sales. The other division's sales – mobility, electronic, and motor division's sales also grew at a healthy pace, led by a strong order book, new customer addition, and capacity expansion. Operating profit grew by 62% y-o-y to Rs. 204 crore, while operating margin came in at 6.8% (up 31 bps y-o-y), led by strong growth in sales. PAT was up by 82% y-o-y to Rs. 108 crore, led by strong operating performance and a sharp increase in other income.

Key positives

- Healthy demand for RAC components during the quarter led to strong sales.
- Mobility, electronics, and motor divisions also reported strong revenue growth.
- Margin expansion on account of operating leverage was driven by robust sales.
- Market share of the company at the manufacturing footprint level increased in the RAC industry and stands at 29.4% in FY2023 (vs. 26.6%) in FY2022.

Key negatives

- Despite strong sales, gross margin is lower at 13.6% as compared to Q4FY2022 in 13.8%.
- The share of sub-assemblies is increasing in total revenue, which has lower margin as compared to other components.

Management Commentary

- For FY2024, the company plans to incur capex of Rs. 200-250 crore.
- Capacity utilisation of new plants would be 20% and next year is expected to be 35-40%. On a blended basis, utilisation levels are at 65-70% levels.
- Management indicated that it would be able to post 30% y-o-y growth in absolute EBITDA from FY2024E irrespective of the gross margin.
- The company expects net debt to come down to Rs. 350-400 crore by FY2024. Cash flow from operations stood at Rs. 321 crore, including other income.
- Demand in Q1FY2024 is likely to be muted due to unseasonal rains in May in northern India, which generates a large amount of demand during this period. Hence, channel inventory is higher than normal levels.

Revision in estimates – We have tweaked our estimates for FY2024-FY2025E to factor in margin improvement.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 2,450: Despite structural change in the RAC industry, wherein brands are resorting to in-house manufacturing of finished goods, Amber is well placed to capture incremental demand accruing from components ecosystem development. However, we reckon that decreasing share of RAC finished goods may alter the margin profile of the company for a brief period till non-RAC components gain scalability. Management remains optimistic about growth in components (including mobility, electronics, and non-RAC components), new customer additions as well as exports in the next 3-4 years. Further, under penetration of RAC, rising temperatures in India, changing lifestyle patterns, and increasing contribution from Tier II, III, IV cities would drive the RAC industry's growth and benefit Amber indirectly, driving demand for its components. We maintain Buy with a revised price target (PT) of Rs. 2,450, rolling forward our estimates to FY2025E EPS.

Key Risks

- Increased revenue share of components vs. finished goods may impact margin.
- Increased share of exports to total revenue exposes the company to currency risk.
- Seasonal nature of the RAC industry.

Valuation (Consolidated)

Particulars	FY22	FY23	FY24E	FY25E
Revenue	4,206	6,927	7,932	9,359
OPM (%)	6.5	6.0	6.3	6.4
PAT	109	157	190	253
Growth (%)	33.3	44.5	20.9	32.9
EPS (Rs.)	32.3	46.7	56.4	74.9
P/E (x)	64.8	44.9	37.1	27.9
EV/EBITDA (x)	43.1	29.1	24.5	20.7
RoCE (%)	7.9	10.3	10.6	12.2
RoE (%)	6.5	8.7	9.6	11.4

Source: Company; Sharekhan estimates

Stellar quarter on all fronts

Amber's Q4FY2023 performance was above our expectations on all fronts. Sales grew by 55% y-o-y to Rs. 3,003 crore. Sales were driven by RAC and components division, which grew by 55% y-o-y, contributing ~80% to total sales. The other division's sales – mobility, electronic, and motor division – also grew at a healthy pace, led by a strong order book, new customer addition, and capacity expansion. Operating profit grew by 62% y-o-y to Rs. 204 crore, while operating margin came in at 6.8% (up 31 bps y-o-y), led by strong growth in sales. PAT was up by 82% y-o-y to Rs. 108 crore, led by strong operating performance and a sharp increase in other income.

Transforming into components supplier for RACs

The company has gradually transformed itself into a components supplier and the share of components in total revenue is likely to increase as compared to finished goods, as most customers are now manufacturing finished products in-house. Hence, RAC and components now account for ~73% of sales vs. ~90% in FY2018. Amber is also focusing on augmenting exports for various components and expects strong traction in FY2024 as well. This shall help the company combat the seasonal nature of domestic RAC and components sales. Other segments such as mobility and electronics are expected to do well, given strong order book due to increasing wallet share in Vande Bharat train projects and growth in the wearables segment.

Q4FY2023 investor update and conference call highlights

Performance of RAC components division: Amber's revenue in Q4FY2023 stood at Rs. 2,371 crore, up 55% y-o-y. EBITDA in Q4FY2023 stood at Rs. 140 crore, growing by 53% y-o-y. For FY2023, revenue was Rs. 5,074 crore, up 65% y-o-y, while EBITDA in FY2023 stood at Rs. 284 crore. Operating EBITDA stood at Rs. 178 crore, depicting 16% y-o-y growth. Growth was led by a strong order book, new customer additions, and expansion in its Chennai, Pune, and Pant Nagar plants. The company also converted gas charging customer into buyers of complete manufacturing solution for RAC business.

Electronics division update: The company's revenue in Q4FY2023 stood at Rs. 411 crore, growing 69% y-o-y. EBITDA in Q4FY2023 stood at Rs. 21 crore, depicting 53% y-o-y growth. The company has entered into hearables and wearables and other communication equipment, which is witnessing strong growth. The company is in advanced discussions with new customers in the telecom sector and has expanded the manufacturing footprint of its electronic division with a new facility in South India. The company has onboarded new customers in the wearable and telecom sector division. Its RAC-PCBA market share has crossed 20% and is consistently growing.

Mobility division update: This division includes its subsidiary – Sidwal, which has a strong order book of more than Rs. 700 crore. The company has commenced production of pantry systems for Vande Bharat trains and its defence application business is also seeing robust growth. The government's thrust on modernisation of railways is providing positive traction for this division and the company is expanding its wallet share in existing customers.

Motor division update: The motor division's revenue in Q4FY2023 stood at Rs. 105 crore; while in Q4FY2022, revenue stood at Rs. 80 crore, growing by 31% y-o-y. EBITDA in Q4FY2023 is Rs. 16 crore; while in Q4FY2022, EBITDA stood at Rs. 9 crore, growing by 78% y-o-y. The company received BLDC motor approvals from few customers. Exports approval from customers is in process and the company is in advanced stages to add marquee clients in exports. The company is also developing motors for new applications.

Capex guidance: The company has carried out expansion in its four new facilities for components, heat exchangers, compressor parts for refrigerators etc. for Rs. 700 crore for FY2023. For FY2024, the company plans to incur capex of Rs. 200-250 crore.

Capacity utilisation: Capacity utilisation of new plants would be 20% and next year is expected to be 35-40%. On a blended basis, utilisation levels are 65-70% levels.

EBITDA guidance: The company refrained from giving EBITDA margin guidance for the coming years. However, it indicated that it would be able to post 30% y-o-y growth in absolute EBITDA from FY2024E, irrespective of the gross margin.

Debt status: The company has gross debt of Rs. 1,344 crore (Rs. 1,032 crore) and net debt of Rs. 588 crore. The company expects net debt to come down to Rs. 350-400 crore by FY2024. Its cash flow from operations was Rs. 321 crore, including other income.

Increased finance cost and depreciation: Increased finance cost and depreciation are largely due to capex incurred in the past and higher interest rates.

Margins are low in sub-assemblies: Sub-assemblies have many components, which are pass through and, therefore, margins are lower than the standard margin of 8-10% in components. This has affected the margin profile of the company in the past few quarters.

Demand for Q1FY2024 is likely to be muted: Demand in Q1FY2024 is likely to be muted due to unseasonal rains in May in northern India, which generates a large amount of demand during this period. Hence, channel inventory is higher than normal levels. However, the company is confident that this will be liquidated in June and July. The company expects the RAC industry to grow conservatively by 10-15% to 9.5mn units during FY2024.

Results (Consolidated)

					Rs cr
Particulars	Q4FY23	Q4FY22	YoY %	Q3FY23	QoQ %
Sales	3,003	1937	55.0	1348	122.7
Operating Profit	204	125	62.4	79	159.2
Depreciation	39	30	28.5	36	7.0
Interest	37	19	101.7	29	29.5
Other Income	19	9	99.3	9	109.1
PBT	146	85.9	69.9	22.2	556.9
Tax	37.8	26.6	42.3	7.1	429.9
Reported PAT	108.1	59.3	82.3	15.1	617.0
Minority Interest	-4.1	-2.1	97.2	-0.9	344.6
Adjusted PAT	104.0	57.2	81.7	14.2	634.8
Adjusted EPS (Rs.)	30.9	17.0	81.7	4.2	634.8
Margins			BPS		BPS
OPM (%)	6.8	6.5	31	5.8	95
NPM (%)	3.6	3.1	54	1.1	248
Tax Rate (%)	25.9	30.9	-502	32.1	-621

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. 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. 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.

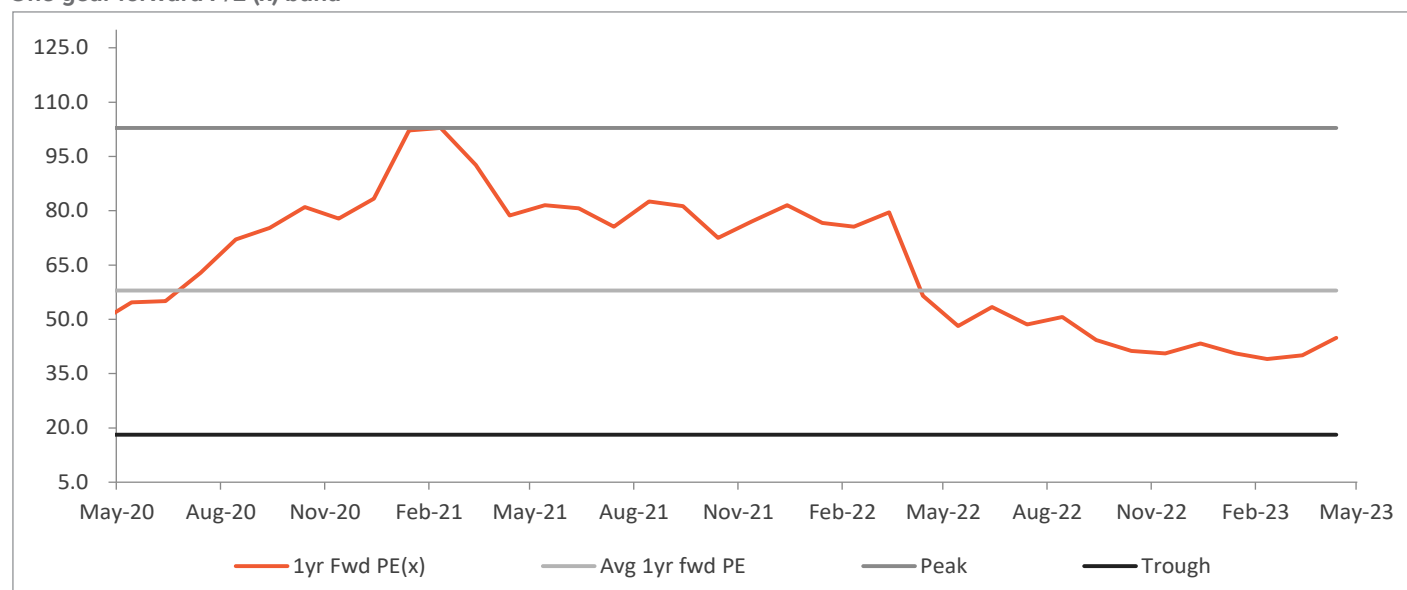
■ Company outlook - Long runway for growth

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, the outlook remains optimistic with the 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. 2,450

Despite structural change in the RAC industry, wherein brands are resorting to in-house manufacturing of finished goods, Amber is well placed to capture incremental demand accruing from components ecosystem development. However, we reckon that decreasing share of RAC finished goods may alter the margin profile of the company for a brief period till non-RAC components gain scalability. Management remains optimistic about growth in components (including mobility, electronics, and non-RAC components), new customer additions as well as exports in the next 3-4 years. Further, under penetration of RAC, rising temperatures in India, changing lifestyle patterns, and increasing contribution from Tier II, III, IV cities would drive the RAC industry's growth and benefit Amber indirectly, driving demand for its components. We maintain Buy with a revised PT of Rs. 2,450, rolling forward our estimates to FY2025E EPS.

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 the overall RAC market in FY2022. The company has 15 manufacturing facilities strategically located close to customers, enabling faster turnaround. It also has a 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 the top 10 RAC brands are its clients.

Investment theme

Amber 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 the innovation and marketing side of the business and relying on outsourcing for manufacturing their products. We believe enormous growth opportunities would come across going forward, owing to global players shifting their 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. A 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
Konika Yadav	Company Secretary and Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Ascent Investment Holdings	9.76
2	Kotak Mahindra Asset Management Co Ltd	4.99
3	Goldman Sachs Group Inc	3.47
4	ICICI Prudential Life Insurance Co Ltd	3.23
5	Vanguard Group Inc	2.13
6	Goldman Sachs Fund	1.38
7	L&T Mutual Fund Trustee Ltd	1.25
8	Newport Asia Institutional	1.18
9	Fundrock Management Co Sa	1.10
10	Fidelity International Ltd.	0.83

Source: Bloomberg (old data)

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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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