

July 03, 2023

COMPANY UPDATE | Sector: Consumer Durables

Amber Enterprises Ltd

Transforming into a AC solutions player

Our interaction with management of the company suggest Amber is gradually transforming into an air-conditioning solutions provider, thereby improving its wallet share from brands that have or are in process of setting up captive manufacturing capabilities. Amber is expected to outperform the industry as i) Completed reliability testing for critical electronic/mechanical components for RAC and is also winning orders ii) Acquired capabilities and approvals for Railways, which is aggressively increasing AC coaches. iii) Expects small exports order in the current fiscal, being on the verge of completion of 3-year testing period; iv) Launching new product categories of wearables, hearables, and telecom products; v) Major capex cycle is over, which will boost utilization levels and improve return ratios. Given its leadership position in outsourced RAC market, as also the potential to outperform RAC industry in medium term, we are upbeat about the stock. We continue with our BUY rating at a TP of Rs2,929 valuing the company at 30x FY25 EPS.

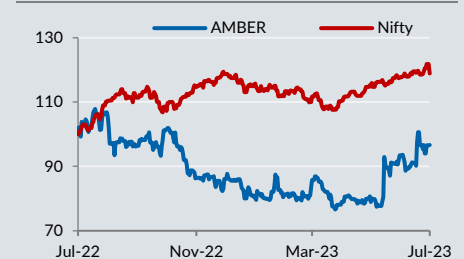
- **Amber to outperform RAC industry growth in near term:** RAC industry would be subdued in near term with FY24 RAC volumes expected to stay flattish to minor positive, considering weak Q1 due to erratic weather. Nevertheless, we expect Amber to deliver mid-single digit growth on back of new customer additions by virtue of conversions from gas charging to RAC, as also supply of AC components to new customers.
- **Supply of critical components in both electronics & mechanical segments to drive strong double-digit growth:** That Amber subsidiaries supply key electronic components (Inverter PCBA) and mechanical components (BLDC motors of RAC) is a distinct edge as Amber has already completed reliability testing with key customers and have products approved by them. This will help increase share of components from brands which will in turn enable components business to clock strong double digit CAGR in medium term.
- **Entry into new product category to boost growth:** Amber's entry into manufacturing of new products like wearables and hearables will help it outperform the industry given strong growth in the domestic market. As per industry report, India is now the world's largest market with Q1CY23 shipments at 25mn units. Growth momentum is expected to continue in medium term.
- **Sidwal's growth to accelerate in railways push of air-conditioned coaches:** Government is increasingly focusing on modernization of Indian railways and has earmarked capex of Rs2.6tn in budget for FY24, where it plans to increase air-conditioned trains and coaches. Government has ambitious plan of increasing Vande Bharat trains to 75nos by August 2024, from present 23nos. Amber has got approvals for air-conditioner apart from it Amber has entered doors, gangway and pantry system which will enable them additional business from railways. Sidwal's current order book stands at Rs7.1bn.
- **Better asset turns and reduced capex intensity to boost Return ratios:** Amber's return ratio has been below par, saddled with lower asset turns and higher capex intensity. Now with assets turn set to get better with export opportunities, coupled with lower capex intensity, will improve return ratios. We expect RoCE to improve from 11% in FY23 to 16% in FY25 and continue its upward march.

Reco	: BUY
CMP	: Rs 2,253
Target Price	: Rs 2,929
Potential Return	: +30.0%

Stock data (as on July 3, 2023)

Nifty	19,322
52 Week h/l (Rs)	2580/1763
Market cap (Rs/USD mn)	76020/921
Outstanding Shares (mn)	34
6m Avg t/o (Rs mn):	267
Div yield (%):	NA
Bloomberg code:	AMBER IN
NSE code:	AMBER

Stock performance



	1M	3M	1Y
Absolute return	3.5%	22.3%	-3.4%

Shareholding pattern (As of Mar'23 end)

Promoter	40.3%
FII+DII	37.5%
Others	22.2%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	2,929	2,614

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	70.5	97.6
EPS (Old)	74.5	99.8
% change	-5.3%	-2.3%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	69,271	76,590	86,926
YoY Growth	64.7	10.6	13.5
EBIDTA	4179	5208	6476
YoY Growth	51.8	24.6	24.3
PAT	1572	2375	3290
YoY Growth	44.0	51.1	38.5
ROE	8.6	11.7	14.2
EPS	46.7	70.5	97.6
P/E	46.5	30.8	22.2
BV	566.5	639.2	739.2
EV/EBITDA	20.0	16.2	12.9

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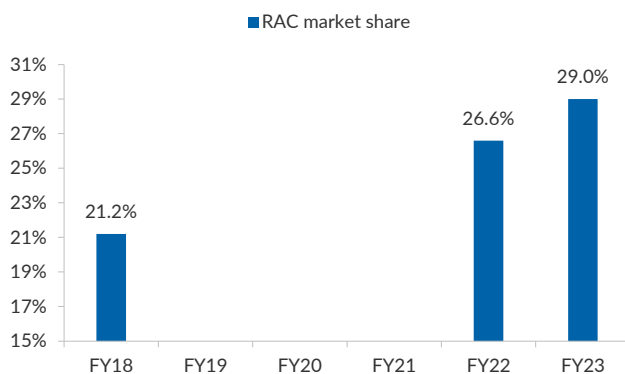


ARSHIA KHOSLA, Associate

Our Take: We believe Amber is best placed to outperform RAC industry in revenue terms as it is transforming itself into a air-conditioned solution player which will reduce the reliance on AC manufacturing. Amber has acquired capabilities in supply of critical AC components and diversified itself into other electronic components. This will lead to higher than industry revenue. Exports is on track, expected to materialize from current fiscal in form of a small order which would showcase its capabilities to global customers and thereby help make quick breakthroughs. With increased efficiency, asset turn will improve and idle time will be utilized towards exports thereby improving return ratios. Considering the leadership position in outsourced RAC market and potential to outperform RAC industry in medium term, coupled with growing presence in critical functional components and export opportunities, we stay positive on the stock and continue with our BUY rating at a TP of Rs2,929.

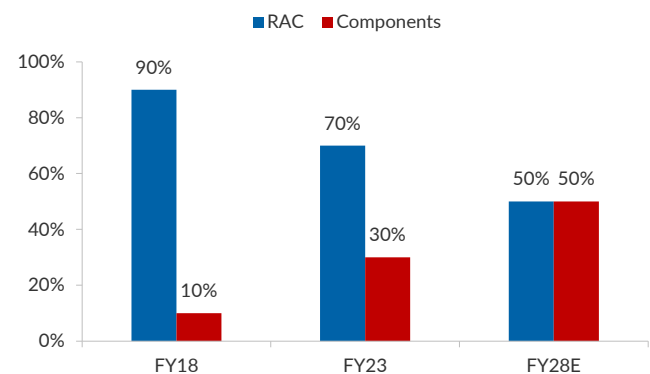
CHARTS

Exhibit 1: Amber's RAC market share has seen increase



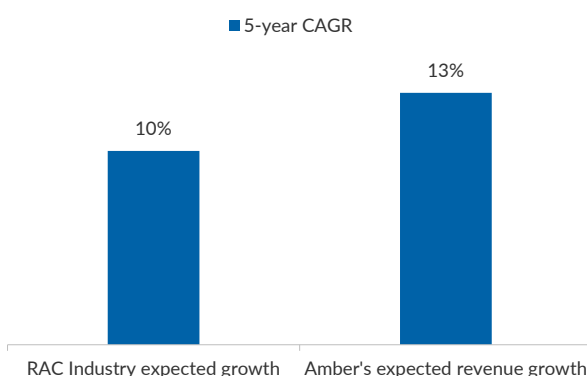
Source: Company, YES Sec

Exhibit 2: Revenue mix shifting towards components



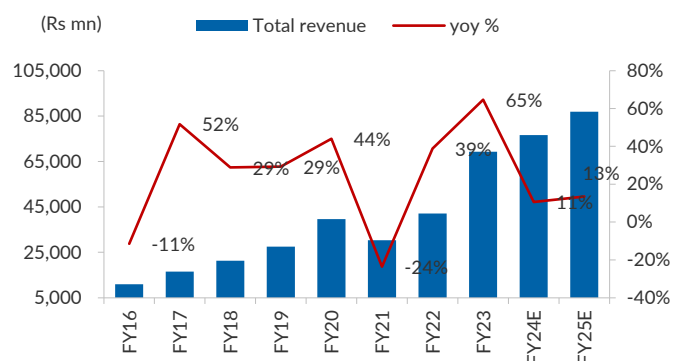
Source: Company, YES Sec

Exhibit 3: Amber is expected to outperform industry



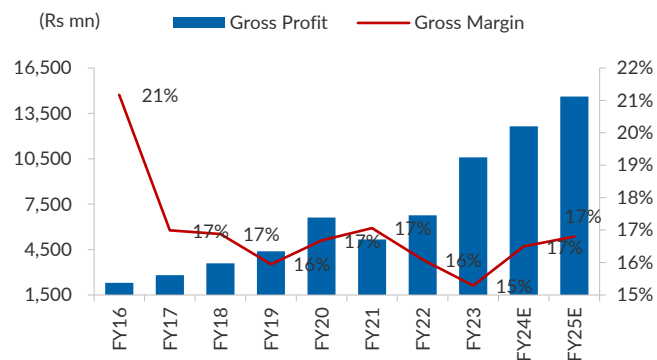
Source: Company, YES Sec

Exhibit 4: Revenue is expected to grow in double digits



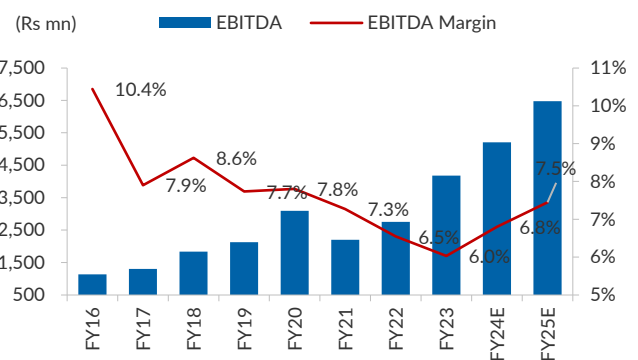
Source: Company, YES Sec

Exhibit 5: Gross margins set to improve



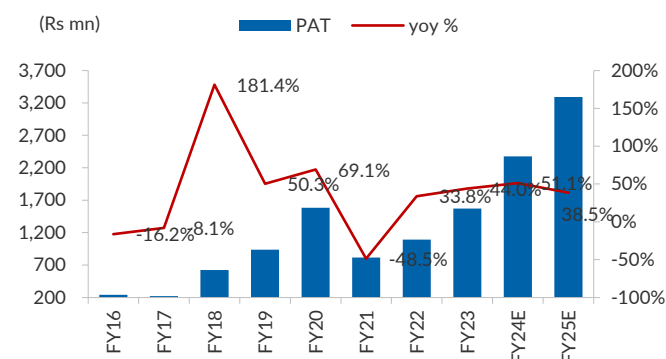
Source: Company, YES Sec

Exhibit 6: Increased efficiency to lead to margin improvement



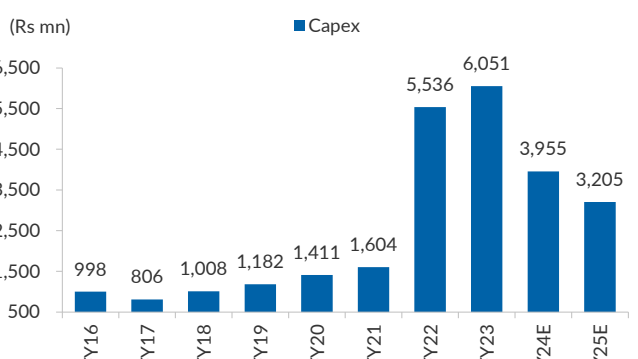
Source: Company, YES Sec

Exhibit 7: Operating leverage to result in increased profitability



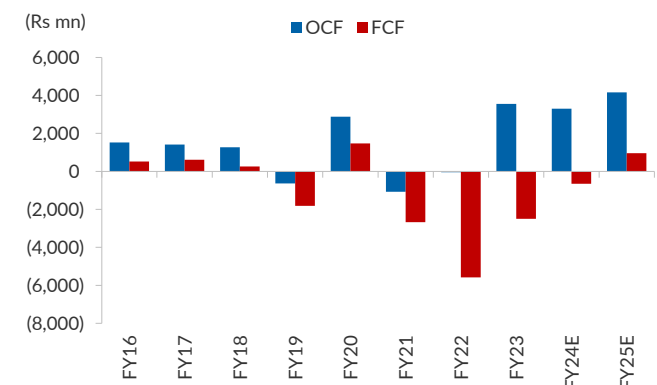
Source: Company, YES Sec

Exhibit 8: Capex intensity to reduce in next 2 years



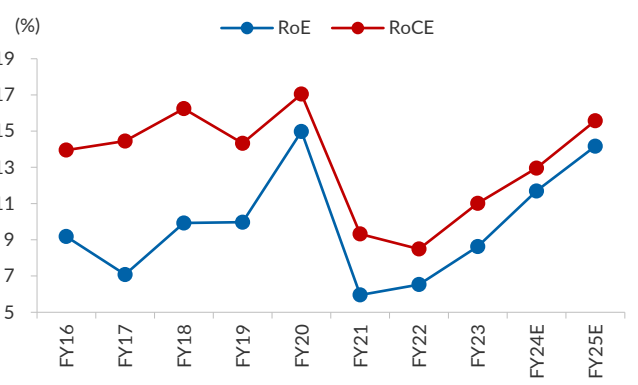
Source: Company, YES Sec

Exhibit 9: Company is expected to generate FCF from FY25



Source: Company, YES Sec

Exhibit 10: Return ratios set to improve



Source: Company, YES Sec

FINANCIALS

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	337	337	337	337	337
Reserves	15,780	17,005	18,751	21,199	24,568
Net worth	16,117	17,342	19,088	21,536	24,905
Debt	3,495	10,318	13,437	11,937	11,937
Deferred tax liab (net)	790	983	978	978	978
Other non current liabilities	620	1,197	2,114	2,129	2,148
Total liabilities	21,021	29,841	35,617	36,580	39,968
Fixed Asset	11,877	16,334	20,994	23,354	24,797
Investments	556	1,061	27	27	27
Other Non-current Assets	1,477	2,049	3,052	3,346	3,760
Net Working Capital	5,240	7,411	8,381	9,173	9,941
Inventories	7,163	8,408	10,982	12,142	13,781
Sundry debtors	10,690	13,149	17,631	19,494	22,125
Loans and Advances	219	18	19	21	23
Sundry creditors	13,169	17,021	23,039	25,110	28,396
Other current liabilities	1,728	2,228	3,719	4,118	4,671
Cash & equivalents	1,871	2,986	3,162	679	1,443
Total Assets	21,021	29,841	35,617	36,580	39,968

Source: Company, YES Sec

Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	30,305	42,064	69,271	76,590	86,926
Operating profit	2,203	2,754	4,179	5,208	6,476
Depreciation	923	1,079	1,391	1,595	1,762
Interest expense	410	464	1,118	993	955
Other income	331	332	527	663	761
Profit before tax	1,201	1,543	2,197	3,283	4,519
Taxes	369	429	559	835	1,150
Minorities and other	17	21	66	72	80
Adj. profit	816	1,092	1,572	2,375	3,290
Exceptional items	-	-	-	-	-
Net profit	816	1,092	1,572	2,375	3,290

Source: Company, YES Sec

Exhibit 13: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	1,611	2,007	3,315	4,276	5,474
Depreciation	923	1,079	1,391	1,595	1,762
Tax paid	(369)	(429)	(559)	(835)	(1,150)
Working capital Δ	(790)	(2,170)	(970)	(792)	(768)
Other operating items					
Operating cashflow	1,375	486	3,177	4,244	5,319
Capital expenditure	(1,624)	(5,536)	(6,051)	(3,955)	(3,205)
Free cash flow	(248)	(5,050)	(2,874)	288	2,113
Equity raised	4,017	133	174	72	80
Investments	(531)	(505)	1,034	-	-
Debt financing/disposal	(180)	6,824	3,119	(1,500)	-
Interest paid	(410)	(464)	(1,118)	(993)	(955)
Dividends paid	-	-	-	-	-
Net Δ in cash	1,171	1,115	177	(2,483)	763

Source: Company, YES Sec

Exhibit 14: Du-pont analysis

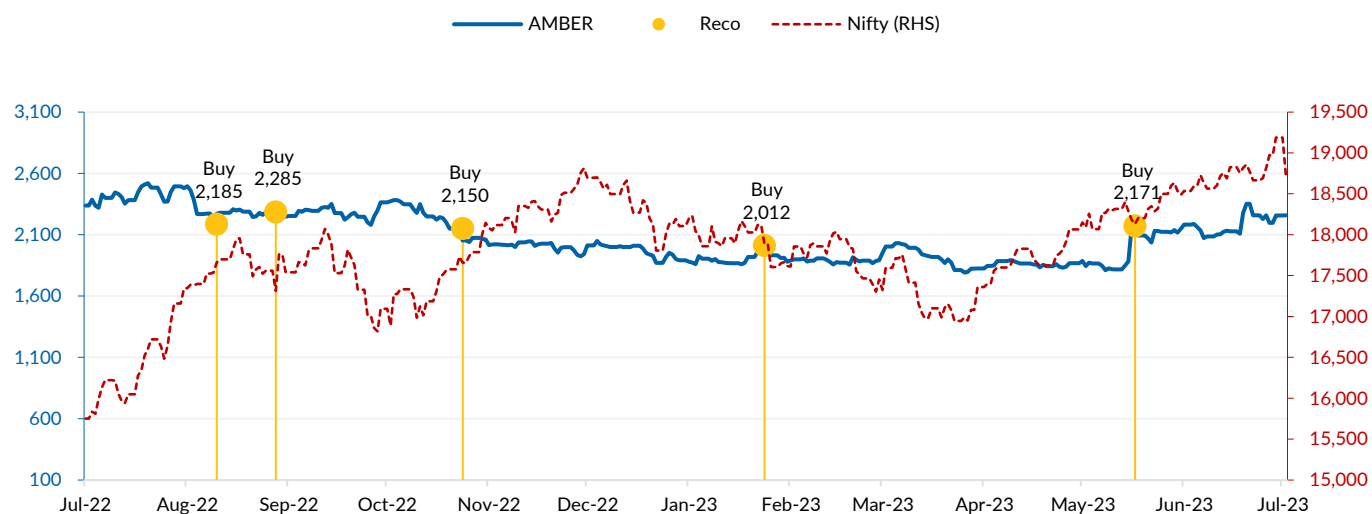
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	0.68	0.71	0.72	0.72	0.73
Interest burden (x)	0.75	0.77	0.66	0.77	0.83
EBIT margin (x)	0.05	0.05	0.05	0.06	0.06
Asset turnover (x)	0.93	0.99	1.24	1.19	1.25
Financial leverage (x)	2.37	2.54	3.06	3.16	2.99
RoE (%)	6.0	6.5	8.6	11.7	14.2

Exhibit 15: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Revenue growth	(23.5)	38.8	64.7	10.6	13.5
Op profit growth	(28.8)	25.0	51.8	24.6	24.3
EBIT growth	(30.8)	24.6	65.2	29.0	28.0
Net profit growth	(48.5)	33.8	44.0	51.1	38.5
Profitability ratios (%)					
OPM	7.3	6.5	6.0	6.8	7.5
EBIT margin	5.3	4.8	4.8	5.6	6.3
Net profit margin	2.7	2.6	2.3	3.1	3.8
RoCE	9.3	8.5	11.0	13.0	15.6
RoNW	6.0	6.5	8.6	11.7	14.2

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
RoA	2.5	2.6	2.8	3.7	4.7
Per share ratios					
EPS	24.2	32.4	46.7	70.5	97.6
Dividend per share	-	-	-	-	-
Cash EPS	51.6	64.4	87.9	117.8	149.9
Book value per share	478.3	514.7	566.5	639.2	739.2
Valuation ratios					
P/E	89.7	67.0	46.5	30.8	22.2
P/CEPS	43.7	35.0	25.6	19.1	15.0
P/B	4.7	4.4	4.0	3.5	3.0
EV/EBIDTA	33.9	29.2	20.0	16.2	12.9
Payout (%)					
Dividend payout	-	-	-	-	-
Tax payout	30.7	27.8	25.4	25.4	25.4
Liquidity ratios					
Debtor days	128.8	114.1	92.9	92.9	92.9
Inventory days	86.3	73.0	57.9	57.9	57.9
Creditor days	158.6	147.7	121.4	119.7	119.2

Recommendation Tracker



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