HOLD Amber Enterprises

Margin a positive surprise

Consumer Durables ▸ Result Update ▸ **July 26, 2023**

TARGET PRICE (Rs): 2,300

Amber's 1QFY24 numbers missed our topline estimates but was above our PAT estimates due to strong operating performance. Amber's strategy of focusing on higher-margin components vs. RACs seems to have driven this beat on EBITDAM. Amber is witnessing increased traction in its mobility division, with a large order win expected to further boost the order book, as it looks to double this business in 2-3 years. While unseasonal rains is expected to cap the industry's volume growth to 7-8% for FY24, Amber's dominant market share in the RAC segment and components manufacturing industry (29% from 25% in FY21) is likely to allow it to grow ahead of the market's pace. We expect this segment to post a 14% CAGR over FY23-26E. We maintain HOLD with a Jun-24 TP of Rs2,300, based on 25x its FY25E one-year fwd. EPS.

Target Price – 12M	Jun-24
Change in TP (%)	**11.1**
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	(4.6)
CMP (26-Jul-23) (Rs)	2,411.5

Amber Enterprises: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	42,064	69,271	80,628	94,959	107,639
EBITDA	2,754	4,179	5,241	6,267	7,212
Adj. PAT	1,092	1,572	1,974	2,916	3,652
Adj. EPS (Rs)	32.4	46.7	58.6	86.5	108.4
EBITDA margin (%)	6.5	6.0	6.5	6.6	6.7
EBITDA growth (%)	25.0	51.8	25.4	19.6	15.1
Adj. EPS growth (%)	33.8	44.0	25.5	47.7	25.3
RoE (%)	6.5	8.6	9.8	12.9	14.0
RoIC (%)	5.8	7.7	8.7	10.4	11.8
P/E (x)	74.4	51.7	41.2	27.9	22.2
EV/EBITDA (x)	31.8	21.9	17.2	14.2	12.0
P/B (x)	4.7	4.3	3.8	3.4	2.9
FCFF yield (%)	3.4	(2.8)	1.3	1.2	1.7

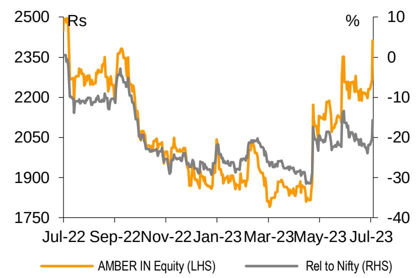
Source: Company, Emkay Research

Stock Data	Ticker
52-week High (Rs)	2,580
52-week Low (Rs)	1,762
Shares outstanding (mn)	33.7
Market-cap (Rs bn)	81
Market-cap (USD mn)	991
Net-debt, FY24E (Rs mn)	9,130
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	537.0
ADTV-3M (USD mn)	6.5
Free float (%)	50.0
Nifty-50	19,778
INR/USD	82.0
Shareholding, Jun-23	
Promoters (%)	40.3
FPIs/MFs (%)	24.2/12.7

Price Performance

(%)	1M	3M	12M
Absolute	8.2	31.7	1.8
Rel. to Nifty	2.3	18.6	(15.1)

1-Year share price trend (Rs)



Muted revenue but robust margin performance

For Q1FY24, Amber's revenue (consolidated) declined by 7% YoY to Rs17bn, missing street and our estimates by 20-23%. Revenue was mainly dragged due to muted performance in the RAC segment as unseasonal rains led to weak demand. Mobility revenue grew by 11% YoY, with a large order of Rs8bn adding to its strong order book, as the company continued to expand on customer adjacencies. Electronics revenue increased by 28% YoY, as demand for the wearable segment and the overall domestic EMS opportunity remain upbeat. EBITDA (consolidated) increased by 33% YoY to Rs1.3bn, beating street's estimates by 13%, owing to a favorable product mix by focusing on higher-margin profile components business vs. RAC products. PAT increased by 9% YoY to Rs0.5bn owing to strong operating performance. Q1 capex was only Rs0.4bn, with overall FY24 guidance maintained at Rs3.5-3.75bn.

Strategy and Outlook

Amber has transformed from a pure RAC and components manufacturer to an end-to-end component supplier. The RAC and components division now accounts for 73% of the revenue vs. 89% in FY18. Moreover, with the tapering of FY24 capex (Rs3.5bn from Rs7bn in FY23), management expects ROCEs to further improve to 19-21% in the next 3-4 years from 16.5% in FY24E. Given the unseasonal rains in Apr-May 2023, our expectations of the RAC industry growing by 17-18% in FY24 have been toned down to 8-9%. We factor in a 16% CAGR for the RAC and components division over FY23-26E, with a larger contribution from components. Structural trends for other segments (mobility and electronics) remain intact, with a strong order book due to railway and metro capex plans with expected robust growth in the wearables segment. We maintain HOLD with a Jun-24 TP of Rs2,300, implying a P/E of 25x (unchanged), based on one-year fwd. EPS. Key risks include continued growth in in-house manufacturing by brands, rising WC requirements, increased penetration in the RAC segment and growing order book for subsidiaries due to higher government spending on railways and infrastructure.

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Exhibit 1: Quarterly consolidated financials

(Rs mn)	1QFY21	1QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)	3-year CAGR
Total Sales	**2,595**	**18,257**	**30,026**	**17,020**	**(6.8)**	**(43.3)**	**87.2**
Raw Material	2176	15635	25933	14047	(10.2)	(45.8)	86.2
As a % of sales	*83.9*	*85.6*	*86.4*	*82.5*			
Employee Cost	225	459	638	596	29.8	(6.7)	38.4
As a % of sales	*8.7*	*2.5*	*2.1*	*3.5*			
Other operating expenses	249	1171	1420	1058	(9.6)	(25.5)	62.0
As a % of sales	*9.6*	*6.4*	*4.7*	*6.2*			
Total Expenditure	2650	17265	27991	15701	(9.1)	(43.9)	81.0
EBITDA	**-55**	**992**	**2035**	**1319**	**32.9**	**(35.2)**	**-388.0**
Depreciation	229	322	388	433	34.6	11.4	23.7
EBIT	-284	671	1647	886	32.1	(46.2)	-246.2
Other Income	30	128	187	193	50.3	3.3	85.2
Interest	102	211	375	453	114.8	20.8	64.1
PBT	-356	589	1459	627	6.5	(57.0)	-220.8
Tax	-117	160	378	161	0.7	(57.5)	-211.3
PAT before MI	-239	429	1081	466	8.7	(56.9)	-224.9
Minority interest	-15	8	41	10	18.4	(76.5)	-187.0
PAT	**-224**	**421**	**1,040**	**456**	**8.5**	**(56.1)**	**-226.7**
Margins (%)					**(bps)**	**(bps)**	
Gross Margin	16.1	14.4	13.6	17.5	311	384	
EBIDTA	(2.1)	5.4	6.8	7.8	232	97	
EBIT	(10.9)	3.7	5.5	5.2	153	(28)	
EBT	(13.7)	3.2	4.9	3.7	46	(118)	
PAT	(8.7)	2.3	3.5	2.7	38	(78)	
Effective Tax rate	32.8	27.1	25.9	25.7	(148)	(26)	

Source: Company

Exhibit 2: Quarterly standalone financials

(Rs mn)	Q1FY21	Q1FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)	3-year CAGR
Total Sales	**1,908**	**14,317**	**23,509**	**11,977**	**(16.3)**	**(49.1)**	**84.5**
Raw Material	1,682	12,781	20,909	10,252	(19.8)	(51.0)	82.7
As a % of sales	*88.2*	*89.3*	*88.9*	*85.6*			
Employee Cost	106	242	345	299	23.6	(13.5)	41.4
As a % of sales	*5.5*	*1.7*	*1.5*	*2.5*			
Other operating expenses	177	827	907	615	(25.6)	(32.1)	51.4
As a % of sales	*9.3*	*5.8*	*3.9*	*5.1*			
Total Expenditure	1,965	13,849	22,161	11,166	(19.4)	(49.6)	78.4
EBITDA	**-57**	**468**	**1348**	**811**	**73.4**	**(39.9)**	**-342.3**
Depreciation	168	232	306	316	36.1	3.2	23.4
EBIT	-225	235	1042	495	110.2	(52.5)	-230.0
Other Income	27	132	138	180	36.2	30.5	88.0
Interest	87	180	308	371	106.6	20.5	61.9
PBT	-286	188	872	304	61.5	(65.2)	-202.1
Tax	-98	57	223	78	37.5	(65.0)	-192.7
PAT	**-187**	**131**	**649**	**226**	**71.9**	**(65.2)**	**-206.4**
Margins (%)					**(bps)**	**(bps)**	
Gross Margin	11.8	10.7	11.1	14.4	367	334	
EBIDTA	(3.0)	3.3	5.7	6.8	350	103	
EBIT	(11.8)	1.6	4.4	4.1	249	(30)	
EBT	(15.0)	1.3	3.7	2.5	122	(117)	
PAT	(9.8)	0.9	2.8	1.9	97	(88)	
Effective Tax rate	34.3	30.1	25.6	25.7	(448)	9	

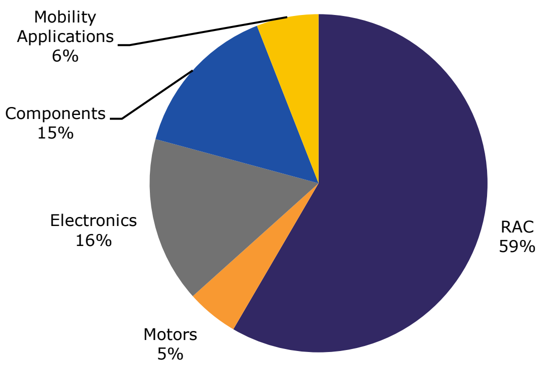
Source: Company

Exhibit 3: Quarterly financials – Subsidiaries (Consolidated – Standalone)

(Rs mn)	1QFY21	1QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)	3-year CAGR
Total Sales	**686**	**3,940**	**6,517**	**5,043**	**28.0**	**(22.6)**	**94.4**
Raw Material	494	2854	5024	3794	32.9	(24.5)	97.4
As a % of sales	*71.9*	*72.4*	*77.1*	*75.2*			
Employee Cost	119	217	293	297	36.7	1.4	35.6
As a % of sales	*17.4*	*5.5*	*4.5*	*5.9*			
Other operating expenses	72	344	513	443	28.9	(13.7)	83.6
As a % of sales	*10.4*	*8.7*	*7.9*	*8.8*			
Total Expenditure	684	3416	5830	4535	32.8	(22.2)	87.8
EBITDA	**2**	**525**	**687**	**508**	**(3.1)**	**(26.0)**	**564.1**
Depreciation	60.5	89.3	82.2	116.9	30.9	42.1	24.5
EBIT	-59	435	604	392	(10.1)	(35.2)	-288.2
Other Income	3	-4	49	13	(439.9)	(73.5)	58.2
Interest	14.9	31.1	66.5	81.5	162.0	22.5	76.3
PBT	**-70**	**401**	**587**	**323**	**(19.3)**	**(44.9)**	**-266.2**
Tax	-18.7	103.0	155.0	82.8	(19.6)	(46.6)	-264.2
PAT	**-52**	**298**	**432**	**240**	**(19.3)**	**(44.4)**	**-266.9**
Margins (%)					**(bqs)**	**(bps)**	
Gross Margin	28.1	27.6	22.9	24.8	(280)	185	
EBIDTA	0.3	13.3	10.5	10.1	(324)	(45)	
EBIT	(8.6)	11.1	9.3	7.8	(329)	(151)	
EBT	(10.3)	10.2	9.0	6.4	(376)	(260)	
PAT	(7.5)	7.6	6.6	4.8	(279)	(186)	
Effective Tax rate	26.6	25.7	26.4	25.6	(8)	(78)	

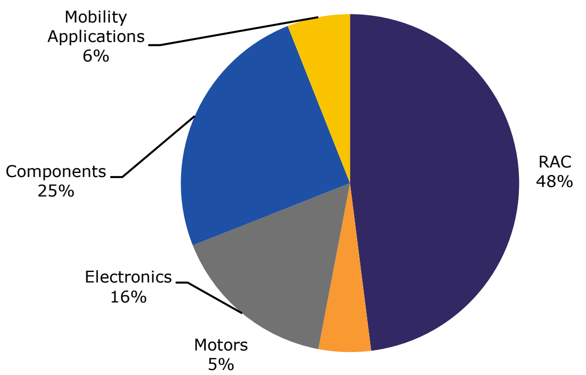
Source: Company, Emkay Research

Exhibit 4: FY20 revenue break-up



Source: Company, Emkay Research

Exhibit 5: Q1FY24 revenue break-up



Source: Company, Emkay Research

Exhibit 6: Change in estimates

Particulars (Rs mn)	FY24E			FY25E			FY26E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	81,509	80,628	-1.1%	93,760	94,959	1.3%		107,639	NA
EBITDA	5,054	5,241	3.7%	5,813	6,267	7.8%		7,212	NA
EBITDA Margin (%)	6.2	6.5	30 bps	6.2	6.6	40 bps		6.7	NA
PAT	1,998	1,974	-1.2%	2,790	2,916	4.5%		3,652	NA
EPS (Rs)	59.3	58.6	-1.2%	82.8	86.5	4.5%		108.4	NA

Source: Emkay Research

Concall Highlights

RAC

- Q1 saw weak demand for RACs as unseasonal rains impacted secondary sales. Management expects channel inventory to normalize by Q2-end with full-year industry expectations tapered down to just 7-8% vs. 10-15% earlier. As per management, the company is expected to grow at least 3-4% higher than the industry's growth rate as its strategy to focus on manufacturing RAC components seems to be working well.
- Margin profile of this segment improved due to a favorable product mix as components offer higher margins vs. finished RAC (6-9%). Components contribute to ~50% of standalone revenue vs. 30% some time back.
- The company is operating RAC plants at 50-55% utilization levels, while certain components are being operated at 70% levels.
- The company sees the trend of insourcing RAC manufacturing by brands largely behind, as 5-6 brands have now started their facilities, with just one Japanese customer planning to start a factory next year. The company is currently focusing on component production in response to this shift in customer strategy.
- The company added new customers in the components division in Q1, which boosted contribution from this segment.

Other highlights

- **Mobility Application Division:** Management is keen and confident about the ramp-up of this division as it expects business and operating profits to double in the next 2-3 years. Q1 saw a large order win of Rs8bn, thus boosting the existing order book for Sidwal. Margin trajectory for this division is likely to be maintained at 20-22%. Sidwal should start seeing orders for comprehensive solutions in FY25, as it presents prototypes to various customers by Q4FY24. Modernization of railways along with 15-16 cities opening up to new metro orders should help sustain growth for this division.
- **Motor Division:** This segment is expected to grow by 20-25% in FY24 on account of new product launches. Plant utilizations are currently at 50%.
- **Electronic Division:** The wearables category is expected to contribute 30% to this segment's revenue, with consumer durables expected to constitute the remaining 60-70% by year-end. The company expects this division to grow by 35-40% as the EMS opportunity's size and addressable markets are huge.
- Net debt currently stands at Rs7.88bn and the company expects to bring it down by Rs0.5-1bn in FY24.
- Q1 capex stood at Rs0.4bn. FY24 capex is expected at Rs3.5-3.75bn, which will be spent on expansion as well as maintenance.
- Overall exports grew by 40% YoY in Q1.

Amber Enterprises: Consolidated Financials and Valuations

Profit and Loss

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	**42,064**	**69,271**	**80,628**	**94,959**	**107,639**
Revenue growth (%)	38.8	64.7	16.4	17.8	13.4
EBITDA	**2,754**	**4,179**	**5,241**	**6,267**	**7,212**
EBITDA growth (%)	25.0	51.8	25.4	19.6	15.1
Depreciation & Amortization	1,079	1,391	1,694	1,814	1,933
EBIT	**1,675**	**2,788**	**3,546**	**4,454**	**5,279**
EBIT growth (%)	30.9	66.5	27.2	25.6	18.5
Other operating income	0	0	0	0	0
Other income	332	527	531	584	673
Financial expense	464	1,118	1,344	1,035	955
PBT	**1,543**	**2,197**	**2,734**	**4,003**	**4,997**
Extraordinary items	0	0	0	0	0
Taxes	429	559	688	1,007	1,258
Minority interest	(21)	(66)	(72)	(80)	(87)
Income from JV/Associates	0	0	0	0	0
Reported PAT	**1,092**	**1,572**	**1,974**	**2,916**	**3,652**
PAT growth (%)	33.8	44.0	25.5	47.7	25.3
Adjusted PAT	**1,092**	**1,572**	**1,974**	**2,916**	**3,652**
Diluted EPS (Rs)	**32.4**	**46.7**	**58.6**	**86.5**	**108.4**
Diluted EPS growth (%)	33.8	44.0	25.5	47.7	25.3
DPS (Rs)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Dividend payout (%)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
EBITDA margin (%)	6.5	6.0	6.5	6.6	6.7
EBIT margin (%)	4.0	4.0	4.4	4.7	4.9
Effective tax rate (%)	27.8	25.4	25.2	25.2	25.2
NOPLAT (pre-IndAS)	**1,209**	**2,079**	**2,654**	**3,333**	**3,950**
Shares outstanding (mn)	33.7	33.7	33.7	33.7	33.7

Source: Company, Emkay Research

Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	337	337	337	337	337
Reserves & Surplus	17,005	18,751	20,797	23,792	27,531
Net worth	**17,342**	**19,088**	**21,134**	**24,129**	**27,868**
Minority interests	387	452	452	452	452
Deferred tax liability (net)	954	947	947	947	947
Total debt	**10,318**	**13,437**	**13,437**	**12,937**	**11,937**
Total liabilities & equity	**29,001**	**33,925**	**35,971**	**38,466**	**41,205**
Net tangible fixed assets	10,073	16,166	18,222	18,658	18,975
Net intangible assets	3,030	3,273	3,273	3,273	3,273
Net ROU assets	718	1,725	1,725	1,725	1,725
Capital WIP	1,282	503	503	503	503
Goodwill	1,457	1,425	1,425	1,425	1,425
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	**5,626**	**5,594**	**6,147**	**7,089**	**8,502**
Current assets (ex-cash)	28,720	36,430	44,723	52,297	58,999
Current Liab. & Prov.	20,095	28,478	37,834	44,291	49,983
NWC (ex-cash)	**8,625**	**7,952**	**6,889**	**8,006**	**9,016**
Total assets	**29,001**	**33,925**	**35,971**	**38,466**	**41,205**
Net debt	6,276	10,183	9,130	7,688	5,275
Capital employed	29,001	33,925	35,971	38,466	41,205
Invested capital	**23,677**	**30,167**	**31,161**	**32,714**	**34,040**
BVPS (Rs)	514.7	566.5	627.2	716.1	827.1
Net Debt/Equity (x)	0.4	0.5	0.4	0.3	0.2
Net Debt/EBITDA (x)	2.3	2.4	1.7	1.2	0.7
Interest coverage (x)	0.2	0.3	0.3	0.2	0.2
RoCE (%)	**8.0**	**10.5**	**11.7**	**13.5**	**14.9**

Source: Company, Emkay Research

Cash flows

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	1,543	2,197	2,734	4,003	4,997
Others (non-cash items)	0	0	0	0	0
Taxes paid	(429)	(559)	(688)	(1,007)	(1,258)
Change in NWC	(1,645)	666	1,062	(1,117)	(1,009)
Operating cash flow	**2,495**	**3,206**	**5,615**	**4,143**	**4,945**
Capital expenditure	(5,540)	(7,776)	(3,750)	(2,250)	(2,250)
Acquisition of business	0	0	0	0	0
Interest & dividend income	193	310	531	584	673
Investing cash flow	**(6,984)**	**(4,888)**	**(3,219)**	**(1,666)**	**(1,577)**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	6,475	3,119	0	(500)	(1,000)
Payment of lease liabilities	(46)	0	0	0	0
Interest paid	(464)	(1,118)	(1,344)	(1,035)	(955)
Dividend paid (incl tax)	0	0	0	0	0
Others	1,464	2,913	3,232	4,284	5,226
Financing cash flow	**7,475**	**4,914**	**1,888**	**2,749**	**3,271**
Net chg in Cash	2,986	3,232	4,284	5,226	6,639
OCF	2,495	3,206	5,615	4,143	4,945
Adj. OCF (w/o NWC chg.)	2,470	3,788	4,553	5,260	5,954
FCFF	(3,044)	(4,570)	1,865	1,893	2,695
FCFE	2,738	(2,290)	1,052	942	1,413
OCF/EBITDA (%)	90.6	76.7	107.1	66.1	68.6
FCFE/PAT (%)	250.7	(145.7)	53.3	32.3	38.7
FCFF/NOPLAT (%)	**(251.9)**	**(219.8)**	**70.3**	**56.8**	**68.2**

Source: Company, Emkay Research

Valuations and Key Ratios

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	74.4	51.7	41.2	27.9	22.2
P/CE(x)	37.4	27.4	22.2	17.2	14.5
P/B (x)	4.7	4.3	3.8	3.4	2.9
EV/Sales (x)	2.1	1.3	1.1	0.9	0.8
EV/EBITDA (x)	31.8	21.9	17.2	14.2	12.0
EV/EBIT(x)	52.3	32.8	25.5	20.0	16.4
EV/IC (x)	3.7	3.0	2.9	2.7	2.5
FCFF yield (%)	3.4	(2.8)	1.3	1.2	1.7
FCFE yield (%)	3.4	(2.8)	1.3	1.2	1.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	2.6	2.3	2.4	3.1	3.4
Total asset turnover (x)	1.7	2.2	2.3	2.6	2.7
Assets/Equity (x)	1.5	1.7	1.7	1.6	1.5
RoE (%)	**6.5**	**8.6**	**9.8**	**12.9**	**14.0**
DuPont-RoIC					
NOPLAT margin (%)	2.9	3.0	3.3	3.5	3.7
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	**5.8**	**7.7**	**8.7**	**10.4**	**11.8**
Operating metrics					
Core NWC days	11.0	7.1	(5.5)	(5.5)	(5.5)
Total NWC days	**74.8**	**41.9**	**31.2**	**30.8**	**30.6**
Fixed asset turnover	2.5	3.0	2.8	3.0	3.2
Opex-to-revenue (%)	9.5	9.3	9.0	9.0	9.0

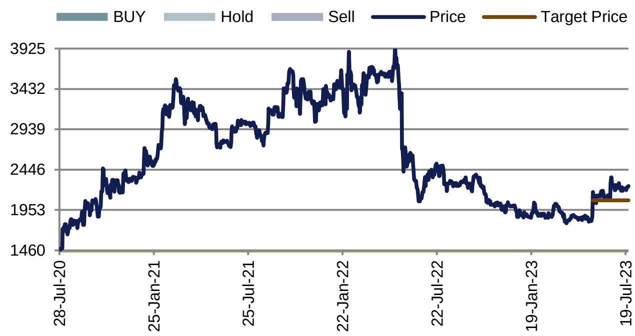
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
17-May-23	2,172	2,070	Hold	Abhineet Anand

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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HOLD	Between -5% to 15%
SELL	Below -5%

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