Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Amber Enterprises India Ltd

Long-term growth story intact

Capital Goods	Sharekhan code: AMBER
Reco/View: Buy ↔	CMP: Rs. 3,626 / Price Target: Rs. 4,100 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Amber Enterprises plans to diversify its revenue stream by entering into segments such as printed circuit boards, critical railway components & subsystems, besides expanding its offerings to various components for telecom, automobiles, refrigerator, washing machine & microwave, which will also provide company with new growth avenues.
- As contribution of high-margin segments rises, margins are expected to improve on a consolidated basis.
- Management is confident of maintaining growth trajectory and achieve an RoCE of 19-21% by FY27.
- We believe the recent weakness in Amber's stock price (it has corrected 23% from its 52-week high) provides a good opportunity to accumulate the stock. We maintain our Buy rating with a revised PT of Rs. 4,100 (based on FY2026E EPS), as we expect profitability to improve, backed by a better product profile well as growth in exports.

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		↔	

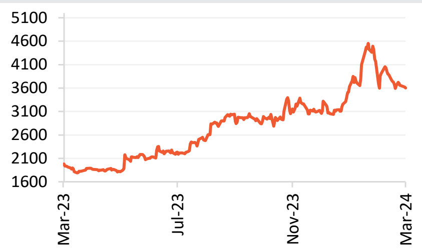
Company details

Market cap:	Rs. 12,216 cr
52-week high/low:	Rs. 4,615/1,762
NSE volume: (No of shares)	1.7 lakh
BSE code:	540902
NSE code:	AMBER
Free float: (No of shares)	2.0 cr

Shareholding (%)

Promoters	40.3
FII	28.3
DII	14.7
Others	16.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.2	17.8	26.8	82.1
Relative to Sensex	-2.7	11.9	17.6	55.6

Sharekhan Research, Bloomberg

The Amber Group has acquired a 60% stake in Ascent Circuits Private Limited, a manufacturer of printed circuit boards for various industries. The company has also signed an MoU with Korea Circuit, which has potential to make Amber leading electronic EMS player. Amber has also partnered with Titagarh Rail Systems Limited to establish a new facility for manufacturing railway components. The management anticipates exponential growth in the railway segment as company's addressable market size is expected to grow exponentially to Rs. 75,000-80,000 crore in the next 5-6 years. The company plans to incur capex of Rs 200-225 crores over next 2 years in setting up new Greenfield facility in Faridabad in the railway segment. While in RAC segment company plans to maintain its market share 28-29% in value terms by supplying various component of RAC to its customers who are building their in-house RAC capacities.

- **Stabilisation of RAC business:** Most clients of Amber are building their in-house RAC capacity, where Amber plans to sell various components. Through new strategy, company was able to maintain 28-29% of its market share in value terms. Apart from RACs and its components, company has expanded its offering to various components for telecom equipments, automobiles, refrigerator compressors, washing machines & microwave ovens.
- **Recent acquisition and strategic alliance to provide revenue diversification:** Amber group has acquired 60% stake in Ascent Circuits Private Limited to manufacture of printed circuit boards which cater to diverse set of clients in aerospace, defence, medical, energy, automotive, telecom, consumer electronics and IT. Further, Ascent Circuits has signed an MoU with Korea Circuit, which will make Amber a leading player in the electronic EMS space. Addressable market size in the PCB segment is enormous as India currently import $3.8 billion worth of bare PCB boards. Amber through Sidwal has entered strategic partnership with Titagarh Rail Systems Limited to establish a new facility in India to manufacture critical railway components and subsystems used in railway and metro coaches. Contribution of RAC towards Amber's revenue has declined from 72% in 2018 to 38% and is expected to decline further over next few years as company develop new avenue of growth.
- **Railway emerging as new growth driver:** Management is optimistic about achieving total addressable market size of 75,000-80,000 crore in 5-6 years in this segment. Management expects exponential growth in this segment as company expects to take 20% of total addressable market size over next four to five years. As company plans to witness exponential growth in the railway segment, hence company will be setting new Greenfield facility in Faridabad to increase capacity for existing products and plan two more facilities for new SPV, one for railway coach's interior and second for couplers, gear, pantograph and other subsystems. Company plans to incur capex of Rs 200-225 crore over the next 2 years.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 4,100: Despite a 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. Management remains optimistic about growth in components (including mobility, electronics, and non-RAC components), customer additions as well as exports in the next 3-4 years. Further, traction in the high growth sectors such as railways could augur well. We build in a revenue/PAT CAGR of ~15%/~37% (FY2023-FY2026E) along with healthy FY26 RoE/RoCE of 16.2%/17.8%. At the CMP, the company is trading at the valuation of 30x its FY2026E EPS. We believe the recent weakness in Amber's stock price (corrected sharply by 23% from its 52-week high of Rs. 4,615) is a good opportunity to accumulate the stock. Hence, we maintain a Buy rating with a revised price target (PT) of Rs. 4,100, based on FY2026E EPS (an increase in the PT reflects higher valuation of the business given a strong growth outlook).

Key Risks

1) Increased revenue share of components vs. finished goods may impact margin. 2) Increased share of exports to total revenue exposes the company to currency risk. 3) Seasonal nature of the RAC industry.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Net Sales	6,927	7,273	8,874	10,648
Operating Profit Margin (%)	6.0	6.9	7.5	7.7
PAT	157	139	285	407
Growth (%)	44.5	(11.4)	104.9	42.7
EPS (Rs.)	46.7	41.3	84.7	120.9
P/E (x)	77.7	87.7	42.8	30.0
EV/EBITDA (x)	31.1	26.5	19.9	16.2
RoCE (%)	10.3	10.5	14.9	17.8
RoE (%)	8.7	7.1	13.1	16.2

Source: Company; Sharekhan estimates

Key highlights

Fluctuations in RAC business: The management expects at least two more quarters of fluctuations on this RAC business. Many companies are building their in-house RAC capacity, where amber plans to sell various components. Once capacity is ready, company plans to ramp up its component business.

Structural shift: The RAC industry has seen structural shift as new players entered B2B space and majority of players decided to shift assembly businesses in-house and started constructing their own facilities. Amber realigned its strategy and shifted focus towards supply of components to room air conditioner to its major B2B customers. Through a new strategy, company was able to maintain 28-29% of its market share in value terms.

Product diversification: Apart from RACs and its components, company has expanded its offering to various component for telecom, automobiles, refrigerator compressor, washing machine & microwave. Contribution of RACs towards Amber's revenues has declined from 72% in 2018 to 38% and expected to decline further over next few years.

Acquisition of Ascent Circuits: Amber group has acquired 60% stake in Ascent Circuits Private Limited through IL JIN Electronics (India) Private Limited for consideration of Rs.311 crores. This acquisition will help company in manufacturing of printed circuit boards and aid in development of company's capabilities in single-sided, double sided, multi-layered and RF PCBs which cater to diverse set of clients in aerospace, defence, medical, energy, automotive, telecom, consumer electronics and IT. Further, Ascent Circuits has signed MOU with Korea Circuit to manufacture Flex, HDI, semiconductor substrates & PCBs, which will make Amber a leading player in the electronic EMS space. Addressable market size in PCB segment is enormous as India currently import $3.8 billion worth of bare PCB boards.

Strategic Alliance with Titagarh Rail Systems: Amber through Sidwal has entered strategic partnership with Titagarh Rail Systems Limited and formed 50:50 joint venture SPV named Shivalik. Sidwala and Titagarh Rail will each invest Rs 120 crores into this joint venture and will establish a new facility in India to manufacture critical railway components and subsystems used in railway and metro coaches. Further, newly formed SPV will make investment of €17 million in Titagarh Firema SPA, which is an associate of the Titagarh Group, based in Italy.

Strong growth in Sidwal Refrigeration: Revenue of Sidwal has increased from 167 crores (15% EBITDA margins) in FY19 to expected revenue Rs.475-480 crores (22% EBITDA margin) in FY24. Further, through its SPV with Titagarh Rail Company will add Rs 850 crores in order book and supply door, gangway and air conditioners to Vande Bharat, Pune and Surat Metro Rail System.

Addressable market size for railway segment: Management is optimistic about achieving total addressable market size of Rs. 75,000-80,000 crore in 5-6 years in this segment. Management expects exponential growth in this segment as company expects to take 20% of total addressable market size over next 4-5 years.

Capex: As the company plans to witness exponential growth in railway segment, hence company will be setting new Greenfield facility in Faridabad to increase capacity for existing product and plan two more facilities for new SPV, one for railway coach's interior and second for couplers, gear, pantograph and other subsystems. Company plans to incur a capex of Rs 200-225 crore in the next 2 years.

Company product portfolio

Segment Portfolio

amber

Consumer Durables Division

Product Portfolio

- **RAC:**
  - Split AC, Window AC, Inverter AC
  - Cassette AC and Ductables
- **RAC Components:**
  - Heat Exchanger
  - Injection Molding
  - Motor
  - Copper Tubing
  - Cross-Flow & Axial Fans
  - Sheet metal components
- **Non-RAC Components for:**
  - Refrigerators, Washing Machine, Microwave, Water Purifiers, TVs, Fans, Telecom
- **Tools for Injection Moulding**

Manufacturing Facilities

- **23 Manufacturing Facilities across India**

Electronics Division

Product Portfolio

- **PCBA's for:**
  - Air Conditioner
  - Microwave
  - Refrigerator
  - Television
  - Ceiling Fans
  - Small appliances
- **Telecom:**
  - ONT Routers
  - RRH and BBU
- **Wearables & Hearables**
  - Smart Watch
  - TWS
- **Automobiles:**
  - EV

Manufacturing Facilities

- **4 Manufacturing Facilities across India**

Completed acquisition of 60% equity stake in Ascent Circuits Pvt Ltd, which is one of the leading manufacturers of PCBs. It has 1 Manufacturing facility in Hosur, Tamil Nadu

Railway Sub-systems & Mobility Division

Product Portfolio

- **Railways & Metros:**
  - Coach HVAC System
  - Driver Cab AC
  - Pantry & its Equipment
  - Doors (External & Internal)
  - Gangways
- **Bus:**
  - HVAC System
  - Power Racks
- **HVAC for Defence**
- **HVAC for Telecom/IT**
- **HVAC for Data centres**
- **Refrigeration & Cold Room Systems**

Manufacturing Facilities

- **1 Manufacturing Facility in North India**

Formation of Strategic Alliance with Titagarh Rail Systems and created 50:50 JV – SPV – Shivalik. Invitalia – the investment arm of govt of italy will also invest in Firema

Source: Company Presentation

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 the 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.

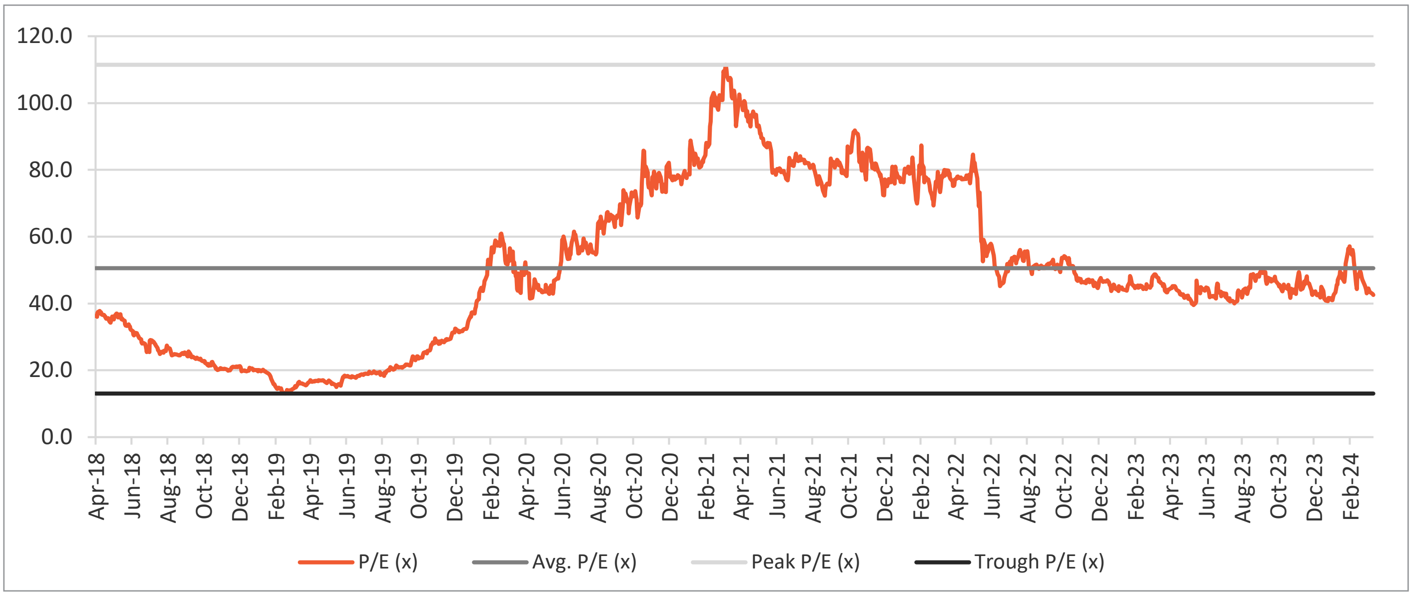
■ Company outlook - Long runway for growth

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. The company will also be a key beneficiary of PLI schemes for AC and components. Overall, the outlook remains optimistic with the management confident of capturing opportunities with better volume offtake despite short-term challenges, such as tepid volume growth in FY2024 and margin pressure in some of the components.

■ Valuation - Retain Buy with a revised PT of Rs. 4,100

Despite a 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. Management remains optimistic about growth in components (including mobility, electronics, and non-RAC components), customer additions as well as exports in the next 3-4 years. Further, traction in the high growth sectors such as railways could augur well. We build in a revenue/PAT CAGR of ~15%/~37% (FY2023-FY2026E) along with healthy FY26 RoE/RoCE of 16.2%/17.8%. At the CMP, the company is trading at the valuation of 30x its FY2026E EPS. We believe the recent weakness in Amber's stock price (corrected sharply by 23% from its 52-week high of Rs. 4,615) is a good opportunity to accumulate the stock. Hence, we maintain a Buy rating with a revised price target (PT) of Rs. 4,100, based on FY2026E EPS (an increase in the PT reflects higher valuation of the business given a strong growth outlook).

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 FY2023. The company has 15 manufacturing facilities strategically located close to customers, enabling faster turnaround. The company also has a high degree of backward integration coupled with strong R&D capabilities, resulting in a 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 the Government of India to enhance manufacturing through Make in India initiative by providing incentives. Further, Amber remains a strong beneficiary from the 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	Managing Director
Sudhir Goyal	Chief Financial Officer
Konica Yadav	Company Secretary and Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	GOVERNMENT OF SINGAPORE	5.3
2	Kotak Mahindra Asset Management Co	5.0
3	Wellington Management Group LLP	3.1
4	Vanguard Group Inc/The	2.3
5	L&T Mutual Fund Trustee Ltd/India	1.6
6	DSP Investment Managers Pvt Ltd	1.3
7	BlackRock Inc	1.1
8	Edelweiss Asset Management Ltd	1.1
9	Goldman Sachs Group Inc/The	1.0
10	Tata Asset Management Pvt Ltd	0.9

Source: Bloomberg

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 detoriating 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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