



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	✗	↔	✗

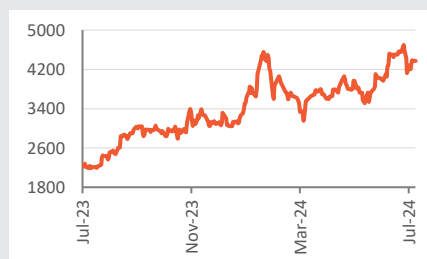
Company details

Market cap:	Rs. 14,750 cr
52-week high/low:	Rs. 4,880 / 2,338
NSE volume: (No of shares)	1.92 lakh
BSE code:	540902
NSE code:	AMBER
Free float: (No of shares)	18.2 lakh

Shareholding (%)

Promoters	39.9
FII	28.4
DII	15.7
Others	16.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.3	22.7	-0.4	79.6
Relative to Sensex	-6.2	13.5	-13.5	56.7

Sharekhan Research, Bloomberg

Amber Enterprises India Ltd

Strong Q1, long-term growth story intact

Capital Goods

Sharekhan code: AMBER

Reco/View: Buy



CMP: Rs. 4,372

Price Target: Rs. 5,010



Upgrade



Maintain



Downgrade

Summary

- Q1 numbers were strong with a profit of Rs. 75 crore (up 60% y-o-y) that was in line with our estimates. Revenues grew by 41% y-o-y (Beats our estimates by 10%) led by RAC segment (+51%) driven by favourable peak summer demand. Operating profits rose by 49% y-o-y. Consolidated EBITDA grew by 49% to Rs 196 crore that drove margins to 8.2% (in line with our estimates).
- A 44% growth in consumer durables space was driven by RAC segment (up 51%) and Non-RAC segment (39%). JVs for washing machines is strengthening the Amber's position in consumer durable Segment.
- Electronics segment grew by 45% led by Ascent's consolidation. (ex-Ascent, growth is 18% y-o-y). Company has bagged new orders from aerospace and defence sectors.
- We maintain a Buy with a revised PT of Rs. 5010 (based on 40x of FY2026E EPS), as we expect profitability to improve, backed by a better RAC product profile, traction in the motors, electronics and mobility division as well as growth in exports. At CMP, the stock trades at a valuation of 52x/35x its FY2025E/FY2026E EPS.

Revenues grew by 41% y-o-y driven by strong performance in the consumer durables (up 44%) and electronics segments (up 45%) which was slightly compensated by degrowth in Railways Sub-systems and mobility segment (-9%). The Railways segment was impacted by delays in metro and rail projects across regions. Consolidated EBITDA margins improved by 50bps to 8.2% from 7.8% leading the EBITDA growth of 49% to reach Rs 196 crore. Overall, PAT increased by 60% to Rs. 75 crore in line with estimates.

Key positives

- Consumer durables and electronics segments clocked robust growth.
- Expansion in product portfolios such as Tower AC Window, Window Top Throw Inverter Series, Tropical high efficiency split air conditioners and cassette air conditioners.
- Electronics division's revenue growth guidance has been raised from 35% to 45% on the back of strong order book.

Key negatives

- Railway sub-systems & mobility division saw a decline in revenues as the focus majorly remained on non-AC coaches and due to delay in rail projects across regions.

Management Commentary

- Company has delivered ~15% ROC in FY2023 and management expects ROCs to jump to 16% by FY 2025. The company has maintained its long-term guidance of delivering 19% ROCs in the next 2-3 years' time.
- Company expects to double its revenue in railway division's subsystem segments over the next two years over the base year of FY2024. New contracts for train AC's from European and US companies have open the global markets.
- For FY2024, the company plans to incur a capex of Rs. 350-380 crore.

Revision in estimates – We maintain our FY2025 estimates and revisit FY2026 earnings estimates.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 5,010: 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), new 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. Moreover, in the long term, under penetration of RAC, rising temperatures in India, changing lifestyle patterns, and increasing contribution from Tier-II, Tier-III, IV cities would drive the RAC industry's growth and benefit Amber indirectly, driving demand for its components. We build in a revenue/PAT CAGR of ~27%/~73% (FY2024-FY2026E). We maintain a Buy rating with a revised price target (PT) of Rs. 5,010 based on 40x of FY2026E EPS.

Key Risks

- Higher share of exports to total revenue exposes the company to currency risk.
- Seasonal nature of the RAC industry.

Valuation (Consolidated)

Particulars	FY23	FY24E	FY25E	FY26E
Net Sales	6,927	6,729	8,874	10,826
Operating Profit Margin (%)	6.0	7.3	7.5	7.7
PAT	157	139	285	418
Growth (%)	44.5	(11.4)	105.0	46.5
EPS (Rs.)	46.7	41.3	84.7	124.1
P/E (x)	94.3	106.4	51.9	635.4
EV/EBITDA (x)	37.3	32.1	23.9	19.1
RoCE (%)	10.3	10.5	14.9	18.1
RoE (%)	8.7	7.1	13.1	16.6

Source: Company; Sharekhan estimates

Q1FY2025 investor update and conference call highlights

- ♦ **Guidance:** The company expects to double revenues in the electronics and railway subsystem segments over the next few years. It expects gross margins to remain stable as the company can pass on any increase in raw-material cost to customers. The company has delivered a ~15% RoCE in FY2024 and expects ROCs to jump to over 16% in FY2025. The company has maintained its long-term guidance of delivering a 19% ROCs in the next 2-3 years.
- ♦ **New products in electronics division:** The company began this division for the sale of inverter AC, but it now has diversified it into providing solutions for home appliances, consumer electronics, wearables, hearables, telecom, and automobile segments. To reduce the dependency on RAC products Amber is focussing on product expansion by introducing Tower, Cassette ACs, etc and has also signed an NDA for expanding its capabilities for components (currently serves 70%).
- ♦ **Electronics division:** The management expects to generate a 45% growth in revenues in FY2025, as the company added customers in the EV space, hearable and wearable electronics business, and telecom business. Imposition of Anti-Dumping duty on PCB's enabled company to onboard new customers in segment of Consumer Electronics, IT, EV space and defence and aerospace.
- ♦ **Railway subsystems and mobility:** The company's order book stood at Rs. 2,075crore. Though the revenues for Q1FY25 had a moderate decline, the management is confident to double the revenues in next 3 years. Due to rising capex in transport infrastructure, Amber expects the industry to witness substantial growth over the next few years. The company has started receiving orders for new products such as doors, gangways and other railway subsystems, which will help the company generate more revenues from existing customers.

Quarterly Results (Consolidated)

Particulars	Rs cr				
	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Net Sales	2,401	2,805	41.4	1,702	-14.4
Operating Profit	196	132	48.7	222	-11.6
Depreciation	55	43	26.9	51	6.7
Interest	52	45	14.5	48	7.3
Other Income	21	19	7.1	18	14.7
PBT	104	63	66.7	138	-24.1
Tax	-30	-16	NA	-39	NA
Reported PAT	75	47	60.3	99	-24.5
Adjusted PAT	75	47	60.3	99	32.5
Adjusted EPS (Rs.)	21.5	13.5	59.2	28.1	-23.5
Margins			BPS		BPS
OPM (%)	8.2	7.8	40	7.9	30
NPM (%)	3.1	2.7	40	3.5	-10
Tax Rate (%)	28.4	25.6	NA	28.1	NA

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Demand outlook encouraging, healthy growth prospects

The air-conditioner industry is set to grow strongly, 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 company's performance in addition to a healthy demand outlook for the electronics outsourcing industry.

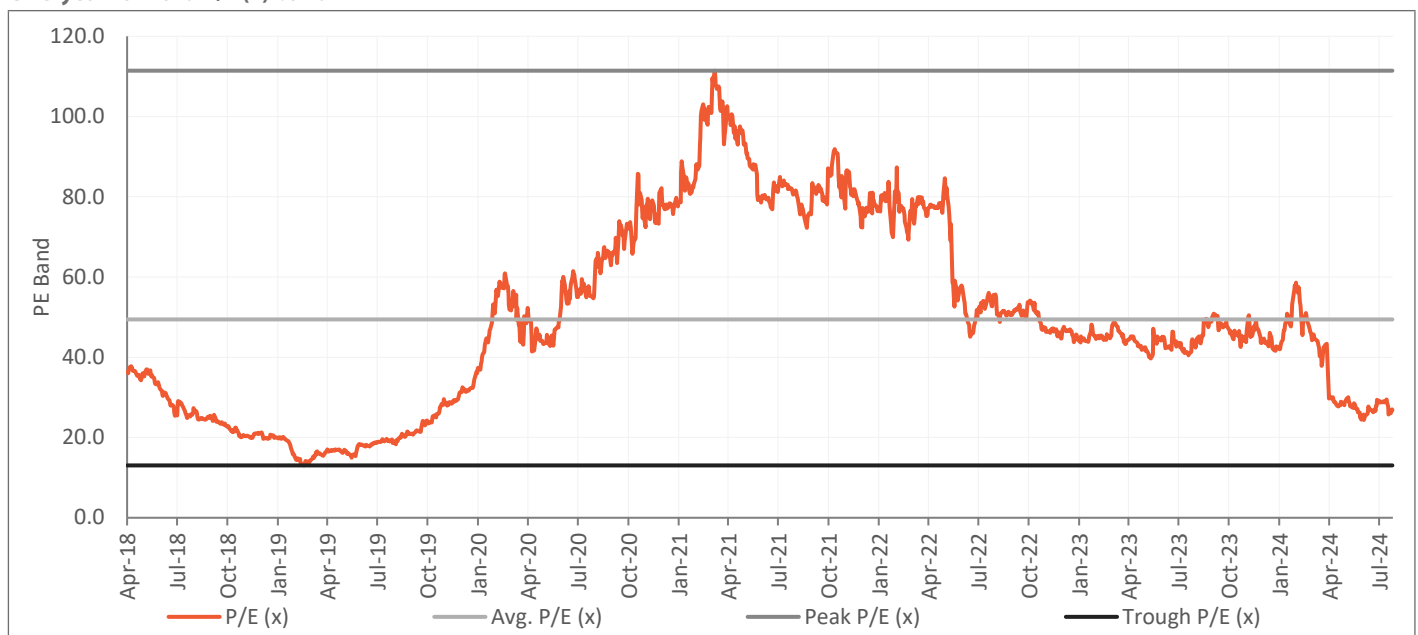
■ Company Outlook – Long runway for growth

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. The company is expanding capacity through two greenfield projects, one in Supa, Pune, and the other in Chennai. The 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 tepid volume growth in FY2024 and margin pressure in some components.

■ Valuation – Retain Buy with a revised PT of Rs. 5,010:

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. While the share of RAC finished goods is decreasing, the company is concentrating on RAC and non-RAC components to drive growth and profitability. 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, traction in the high growth sectors such as railways could augur well. Moreover, in the long term, underpenetration 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 build in a revenue/PAT CAGR of ~27%/~73% (FY2024-FY2026E). We maintain our Buy rating with a revised price target (PT) of Rs. 5,010, based on 40x of FY2026E 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 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	Executive Managing Director
Sudhir Goyal	Chief Financial Officer
Konika Yadav	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Government of Singapore	5.71
2	Kotak Mahindra Asset Management	4.86
3	Ascent Investment Holdings	4.27
4	Vanguard Group Inc/The	2.29
5	L&T Mutual Fund Trustee Ltd.	1.66
6	DSP Investment Managers Co Ltd	1.58
7.	Goldman Sachs Group	3.58
8.	Motilal Oswal Asset Management	1.42
9.	Blackrock Inc	1.12
10.	Sundaram Asset Management Co Ltd	1.04

Source: Bloomberg

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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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