Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

Amber Enterprises India Ltd

Transition story to playout

Capital Goods	Sharekhan code: AMBER

Reco/View: Buy	↔	CMP: Rs. 4,669	Price Target: Rs. 5,500	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

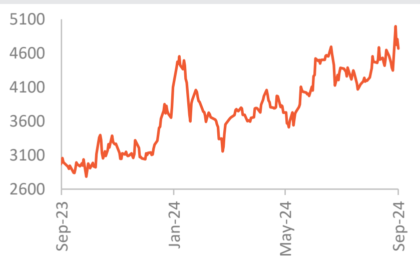
Company details

Market cap:	Rs. 15,732 cr
52-week high/low:	Rs. 5,364/ 2,712
NSE volume: (No of shares)	2.38 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	10.0	15.2	13.9	57.4
Relative to Sensex	5.0	5.3	(7.5)	27.4

Sharekhan Research, Bloomberg

Summary

- Amber is capitalising on strong growth in the AC industry backed by a strong summer and soaring temperature. AC penetration is expected to improve significantly, and volumes are likely to clock a 30% CAGR going forward.
- Second leg of growth will be fuelled by Electronics vertical expansion wherein government has levied anti-dumping duty on PCBs.
- Company's transition from ACs to electronics to mobility has driven up margins and is further expected to improve asset turn leading to better return ratios. Company has guided to reach 19% RoCE in the long run.
- We maintain a Buy rating, rolling forward valuation on FY27E with a revised PT of Rs. 5500 (based on 38x of FY2027E EPS), on hopes of better profitability, 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 67x/43x/33x its FY2025E/FY2026E/FY2027E EPS.

Amber Enterprises is among the topmost ODM/OEM solutions providers with strong record of expanding across various product segments with a varied customer base. The management is confident of healthy growth in the long term driven by strong tailwinds across RAC, Railways, Defence and Consumer Durables industries. The company expects to double revenues in the electronics and railway subsystem segments in 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. Company has delivered a ~15% RoCE in FY2024 and expects ROCs to jump to over 16% in FY2024. The company has maintained its long-term guidance of delivering a 19% ROCs in the next 2-3 years.

- **RAC industry growth and outlook:** With increasing in-house manufacturing by the known brands, Amber has diversified its focus towards supplying components to RAC customers to maintain its market shares of 27% of TAM. Amber is the only ODM/OEM player capable to supply almost 70% of AC components to different brands. Management expects the demand for components of AC to be higher and therefore plans to add more customers under the components umbrella. The Indian ODM RAC market is expected to clock a 13% CAGR to reach 11mn units by 2028 from around 6mn units in FY24.
- **Leveraging its JVs and acquisitions:** Amber by acquiring stake in Resojet and Ascent circuits have widened its client base across various sectors. Amber is expanding its presence from PCB assembly to manufacturing bare board PCB through acquisition of Ascent Circuits catering to sectors such as Aerospace & Defence, Industrials, Telecom, Automobile, Healthcare, and consumer durables etc. The management has guided segment growth of 45% CAGR over coming years. As per the annual report, total Indian PCB market has reached $4.8 billion in 2023 and out of that only 15% is manufactured in India. The PCB market is expected to grow at 12-15% CAGR and reach $10 billion by 2030.
- **Mobility segment:** Amber bought Sidwal in 2019. Sidwal is now eyeing a larger kitty of orders from the different segment of railways. The segment shows a strong potential to grow on the back of strong order book of Rs 2000 crore. Indian railways tenders for Vande Bharat trains is slow due to changes in government strategies. The tenders are expected to be announced soon. Management guides the revenues to double in the coming three years.

Revision in estimates – We revisit our estimates for FY2025-2026E and roll out FY27E estimates factoring in the bright outlook the RAC industry tailwinds and significant contribution from Electronics and Mobility segment.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 5,500: 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 AC components. We build in a revenue/PAT CAGR of ~21%/~52% (FY2024-FY2027E). We maintain a Buy rating with a revised price target (PT) of Rs. 5,500 based on 38x of FY2027E EPS.

Key Risks

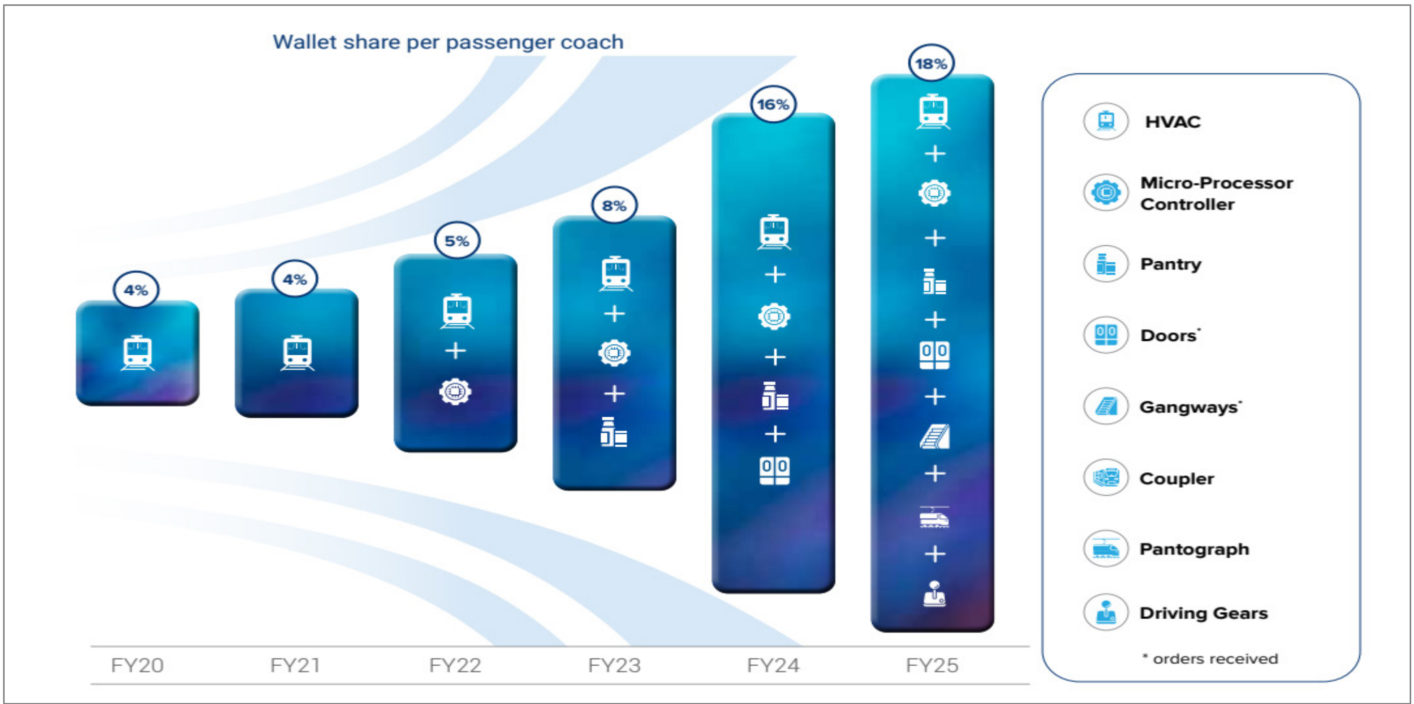
1) Higher share of exports to total revenue exposes the company to currency risk. 3) Seasonal nature of the RAC industry.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	6,927	6,729	8,411	10,178	12,010
Operating Profit Margin (%)	6.0	7.3	7.5	8.0	8.0
PAT	157	139	241	381	485
Growth (%)	44.5	(11.4)	72.7	58.5	27.3
EPS (Rs.)	46.7	41.3	71.4	113.1	144.0
P/E (x)	103.0	116.2	67.3	42.5	33.4
EV/EBITDA (x)	40.6	34.9	27.4	21.3	17.9
RoCE (%)	10.3	10.5	13.4	17.2	18.8
RoE (%)	8.7	7.1	11.2	15.5	16.8

Source: Company; Sharekhan estimates

Diversification into various Electronic Applications



Source: Sharekhan Research

Outlook and Valuation

■ Sector Outlook – 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 bases 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. Enhanced capacities 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.

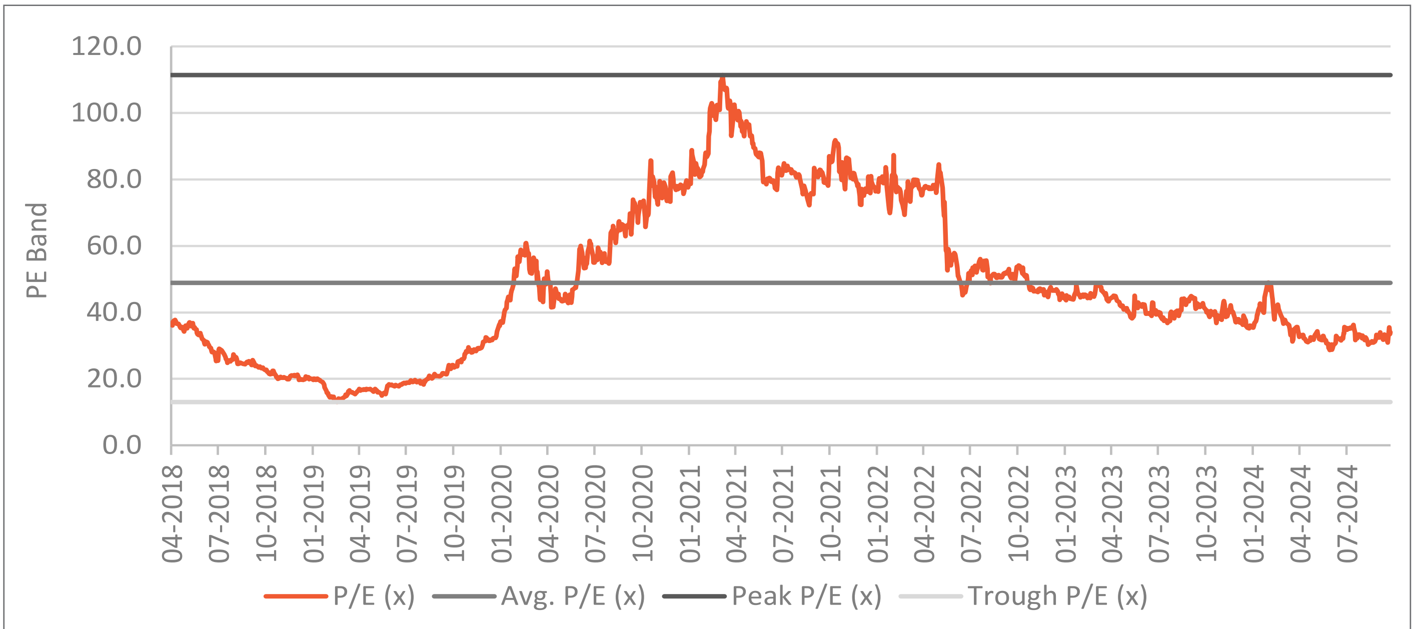
■ Company Outlook – Long runway for growth

Amber is well-placed to capture incremental demand accruing from the indigenisation of both fully built-up units and components ecosystem development through lower imports. The company will also be a key beneficiary of PLI schemes for ACs 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. 5,500

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 AC components. We build in a revenue/PAT CAGR of ~21%/~52% (FY2024-FY2027E). We maintain a Buy rating with a revised price target (PT) of Rs. 5,500 based on 38x of FY2027E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About the 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
Konica 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

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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