

23 October 2024

Amber Enterprises

Growth momentum, brighter outlook persist; maintaining a Buy

Rating: **Buy**

Target Price(12-mth): Rs.8,125

Share Price: Rs.6409

Healthy growth in its consumer durables and electronics drove Amber's strong Q2 growth. With its expanded portfolio and client added, it expects to outdo industry growth in RAC. PCB capacity (greenfield) is being expanded (capex Rs6.5bn), with revenue likely from FY27. JV with Korea Circuits has been signed to expand offerings to HDI, flex and semi-conductor substrates. With strong electronics and mobility tailwinds, we expect 37%/48% FY27 revenue/ EBITDA (FY24 25.6%/32.1%) driving RoCE (8.3% to 20.6%) and EPS (Rs39.4 to Rs193.8) expansion. We retain a Buy at an Rs8,125 TP.

Consumer durables, electronics boost performance. Q1 revenue shot up 81.7% y/y, boosted by strong 95.4% y/y growth in consumer durables and 98.4% y/y in electronics, partially offset by railway subsystems and mobility divisions' falling revenue (down 6.1% y/y) due to delayed offtake. Despite a 215bp gross-margin contraction, the EBITDA margin expanded 33bps y/y to 6.8% due to better operating leverage. PAT came at Rs192m (vs a Rs69m loss a year back) despite higher depreciation (25.2%) and interest costs (33% y/y).

Electronics primed for stellar growth in 4-5 years. Indigenisation, supply-chain improvements and new anti-dumping duty on base PCBs are set to drive significant growth. As Ascent is running at 85% capacity, management is setting up a new plant, to be commissioned in H2 FY26. The company has signed a JV with Korea Circuits to expand its offering to HDI, flex and semi-conductor substrates. Amber anticipates new SPECS schemes for bare boards to be rolled out in 3-4 months, when it will announce an updated capex plan (by Q2 FY26), with significant expense planned for FY27. The electronics division overall is expected to clock a 35%+ CAGR in the next 4-5 years, with margins shifting to low double digits as bare PCBs constitute a larger share.

Valuation. At the CMP, the stock trades at 56.1x/33.1x FY26e/27e EPS (Rs114.2/193.8). We model 25.2%/70% FY24-27 revenue/earning CAGRs, driving RoCE to 20.6%, from 8.3%. We retain a Buy with a higher TP (Rs8,125; Rs5,553 earlier), 42x FY27e EPS. **Key risks:** Slower-than-expected growth in mobility/electronics or lower RAC offtake in H2 could lead pruned estimates.

Key financials (YE: Mar)	FY23	FY24	FY25e	FY26e	FY27e
Net revenues (Rs m)	69,271	67,293	91,037	1,09,208	1,32,168
Adj. Net profit (Rs m)	1,572	1,329	2,663	3,849	6,529
EPS (Rs)	46.7	39.4	78.9	114.0	193.4
P/E (x)	137.4	162.5	81.3	56.2	33.1
EV / EBITDA (x)	53.5	45.4	32.8	25.6	18.4
P/BV (x)	11.3	10.5	9.3	8.0	6.4
RoE (%)	8.2	6.4	11.4	14.2	19.4
RoCE (%)	8.2	8.3	12.0	14.4	20.6
RoCE (post-tax)	6.1	6.1	9.0	10.8	15.4
Dividend yield (%)	-	-	-	-	-
Net debt / equity (x)	0.4	0.4	0.5	0.5	0.2

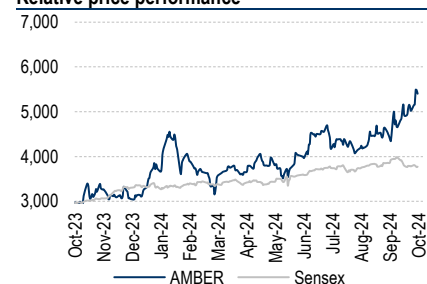
Source: Company

Key data	AMBER IN / AMBE.BO
52-week high / low	Rs.6,816 / 2,712
Sensex / Nifty	80,082 / 24,436
3-m average volume	\$27.5m
Market cap	Rs.216bn / \$2,573.1m
Shares outstanding	34m

Shareholding pattern (%)	Sep'24	Jun'24	Mar'24
Promoters	39.8	39.9	40.3
- of which, Pledged	-	-	-
Free float	60.2	60.1	59.7
- Foreign institutions	26.4	28.4	26.0
- Domestic institutions	17.8	15.7	15.8
- Public	16.0	16.0	17.9

Estimates revision (%)	FY25e	FY26e
Sales	8.2	5.9
EBITDA	5.0	2.5
Net income	7.8	(7.4)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net revenues	69,271	67,293	91,037	1,09,208	1,32,168
Growth (%)	64.7	(2.9)	35.3	20.0	21.0
Direct costs	58,678	54,999	75,560	89,550	1,07,056
Gross margins (%)	15.3	18.3	17.0	18.0	19.0
SG&A	6,414	7,375	8,504	10,720	12,901
EBITDA	4,179	4,919	6,973	8,937	12,211
EBITDA margins (%)	6.0	7.3	7.7	8.2	9.2
- Depreciation	1,391	1,865	2,251	2,706	2,967
Other income	527	553	910	1,092	1,322
Interest expenses	1,118	1,670	1,935	2,150	2,011
PBT	2,197	1,937	3,697	5,173	8,555
Effective tax rates (%)	25.4	26.8	24.7	25.2	25.2
+ Associates / (Minorities)	(66)	(89)	(122)	(22)	128
Net income	1,572	1,329	2,663	3,849	6,529
Adjusted income	1,572	1,329	2,663	3,849	6,529
WANS	33.7	33.7	33.8	33.8	33.8
FDEPS (Rs)	46.7	39.4	78.9	114.0	193.4
FDEPS growth (%)	44.0	(15.5)	100.4	44.5	69.7

Source: Company

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT	2,788	3,054	4,722	6,231	9,245
+ Non-cash items	1,391	1,865	2,251	2,706	2,967
Oper. prof. before WC	4,179	4,919	6,973	8,937	12,211
- Incr. / (decr.) in WC	1,110	5,082	(1,205)	40	(1,760)
Others incl. taxes	(559)	(519)	(912)	(1,302)	(2,153)
Operating cash-flow	4,731	9,482	4,856	7,675	8,298
- Capex (tang. + intang.)	7,808	2,286	7,507	6,500	3,086
Free cash-flow	(3,077)	7,196	(2,651)	1,175	5,212
Acquisitions	-	(3,100)	-	-	-
- Div.(incl. buyback & taxes)	-	-	-	-	-
+ Equity raised	-	-	1	-	-
+ Debt raised	3,119	895	-	-	(5,000)
- Fin investments	(320)	976	1,350	-	-
- Misc. (CFI + CFF)	393	2,697	1,147	1,080	562
Net cash-flow	(31)	1,318	(5,147)	95	(350)

Source: Company

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	337	337	338	338	338
Net worth	19,088	20,644	23,307	27,156	33,685
Debt	13,437	14,332	14,332	14,332	9,332
Minority interest	452	518	518	518	518
DTL / (Assets)	947	1,348	1,348	1,348	1,348
Capital employed	33,924	36,841	39,505	43,354	44,883
Net tangible assets	17,891	20,919	22,418	29,962	30,745
Net intangible assets	3,273	4,389	4,389	4,389	3,724
Goodwill	1,425	3,609	3,609	3,609	3,609
CWIP (tang. & intang.)	130	243	4,000	250	250
Investments (strategic)	23	1,109	2,459	2,459	2,459
Investments (financial)	1,912	1,064	1,064	1,064	1,064
Current assets (excl. cash)	32,155	27,656	39,727	47,657	59,487
Cash	5,594	6,913	1,766	1,861	1,510
Current liabilities	28,478	29,060	39,927	47,896	57,966
Working capital	3,677	(1,405)	(199)	(239)	1,521
Capital deployed	33,924	36,841	39,505	43,354	44,883
Contingent liabilities	-	-	-	-	-

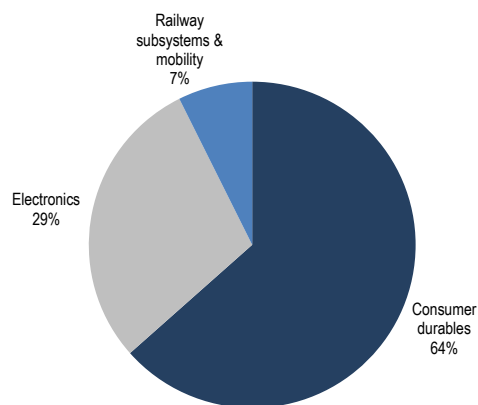
Source: Company

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	137.4	162.5	81.3	56.2	33.1
EV / EBITDA (x)	16.6	14.0	10.6	8.3	5.7
EV / Sales (x)	1.0	1.0	0.8	0.7	0.5
P/B (x)	11.3	10.5	9.3	8.0	6.4
RoE (%)	8.2	6.4	11.4	14.2	19
RoCE (%) post-tax	6.1	6.1	9.0	10.8	15
RoIC (%) post-tax	7.9	8.1	10.4	12.3	
DPS (Rs)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Dividend payout (%) - incl. DDT	-	-	-	-	-
Net debt / equity (x)	0.4	0.4	0.5	0.5	0.2
Receivables (days)	93	85	85	85	90
Inventory (days)	58	46	55	55	55
Payables (days)	121	118	120	120	120
CFO : PAT %	300.9	713.6	182.3	199.4	127.1

Source: Company

Fig 6 – Q2 FY25 revenue break-up



Source: Company

Fig 7 – Financial performance

Quarterly (Rs m)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Y/Y (%)	Q/Q (%)
Net sales	7,504	13,483	30,026	17,020	9,271	12,948	28,055	24,013	16,847	81.7	(29.8)
Gross profit	1,580	2,298	4,093	2,973	2,065	2,560	4,695	4,266	3,390	64.2	(20.5)
Margin (%)	21.1	17.0	13.6	17.5	22.3	19.8	16.7	17.8	20.1	(215) bps	236 bps
EBITDA	367	785	2,035	1,319	596	785	2,219	1,962	1,137	91.0	(42.0)
Margin (%)	4.9	5.8	6.8	7.8	6.4	6.1	7.9	8.2	6.8	33 bps	(142) bps
Depreciation	318	363	388	433	452	466	515	549	566	25.2	3.1
Interest	243	289	375	453	366	369	483	518	486	33.0	(6.2)
Other income	122	89	187	193	127	52	180	207	178	39.8	(13.8)
Extraordinary items	-	-	-	-	-	-	-	-	-	NA	NA
PBT	(73)	222	1,459	627	(95)	3	1,402	1,101	263	NA	(76.1)
Tax	(50)	71	378	161	(38)	8	388	298	26	NA	(91.1)
ETR (%)	69.0	32.1	25.9	25.7	40.4	274.1	27.7	27.1	10.1		
Reported PAT	(30)	141	1,040	456	(69)	(5)	947	724	192	NA	(73.4)
Adj. PAT	(30)	141	1,040	456	(69)	(5)	947	724	192	NA	(73.4)
Adj. EPS	(0.9)	4.2	30.9	13.5	(2.1)	(0.1)	28.1	21.5	5.7	NA	(73.5)

Source: Company

As % of income	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	bps y/y	bps q/q
Gross margins	21.1	17.0	13.6	17.5	22.3	19.8	16.7	17.8	20.1	(215)	236
SG&A	16.2	11.2	6.9	9.7	15.8	13.7	8.8	9.6	13.4	(247)	378
EBITDA margins	4.9	5.8	6.8	7.8	6.4	6.1	7.9	8.2	6.8	33	(142)
Depreciation	4.2	2.7	1.3	2.5	4.9	3.6	1.8	2.3	3.4	(152)	107
Interest	3.2	2.1	1.2	2.7	3.9	2.8	1.7	2.2	2.9	(106)	73
Other income	1.6	0.7	0.6	1.1	1.4	0.4	0.6	0.9	1.1	(32)	20
Extraordinary items	-	-	-	-	-	-	-	-	-	-	-
PBT	(1.0)	1.6	4.9	3.7	(1.0)	0.0	5.0	4.6	1.6	258	(302)
ETR	69.0	32.1	25.9	25.7	40.4	274.1	27.7	27.1	10.1	NA	(1,698)
Adj. PAT margins	(0.4)	1.0	3.5	2.7	(0.7)	(0.0)	3.4	3.0	1.1	189	(187)

Source: Company

Particulars (Rs m)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Y/Y (%)	Q/Q (%)
Net sales											
Consumer durables	4,050	9,730	24,750	13,310	5,470	9,320	21,990	19,180	10,690	95.4	(44.3)
Electronics	2,410	2,721	4,150	2,670	2,480	2,410	4,840	3,880	4,920	98.4	26.8
Railway sub-systems & mobility	1,050	1,039	1,130	1,040	1,320	1,200	1,230	950	1,240	(6.1)	30.5
Sales mix (%)											
Consumer durables	53.9	72.1	82.4	78.2	59.0	72.1	78.4	79.9	63.4		
Electronics	32.1	20.2	13.8	15.7	26.8	18.6	17.2	16.2	29.2		
Railway sub-systems & mobility	14.0	7.7	3.8	6.1	14.2	9.3	4.4	4.0	7.4		
EBITDA (pre-ESOP)											
Consumer durables	180	570	1,560	1,060	210	460	1,790	1,500	620	195.2	(58.7)
Electronics	80	130	210	110	130	120	330	300	370	184.6	23.3
Railway sub-systems & mobility	250	200	280	210	310	240	220	200	210	(32.3)	5.0
EBITDA (pre-ESOP) margins (%)											
Consumer durables	4.4	5.9	6.3	8.0	3.8	4.9	8.1	7.8	5.8	196 bps	(202) bps
Electronics	3.3	4.8	5.1	4.1	5.2	5.0	6.8	7.7	7.5	228 bps	(21) bps
Railway sub-systems & mobility	23.8	19.2	24.8	20.2	23.5	20.0	17.9	21.1	16.9	(655) bps	(412) bps

Source: Company

Q2 FY25 concall takeaways

Financial performance

- Q1 revenue rocketed 81.7% y/y, largely due to roaring growth in the consumer durables and electronics divisions.
- The company will receive PLI incentives of Rs360mn in FY25. It expects to receive total incentives of Rs650m-700m. It doesn't share incentives with clients.
- The Q1 EBITDA margin rose 33bps y/y to 6.8% due to better operating leverage.
- Net debt is expected to rise from Rs6bn to Rs7bn-8bn by end-FY25.
- FY25 capex has been pegged at Rs3.5bn-3.75bn, excl. Ascent Circuit- and Korea Circuits-related capex.

Consumer durables

- Consumer durables shot up 95.4% y/y led by strong growth in the RAC segment due to prolonged summers and lower channel stocks, which now are normal.
- Management expects RAC industry volumes of ~13m units in FY25 vs 10m in FY24, implying 30% y/y growth. Management expects to grow faster than the industry.
- The RAC vertical grew 104% y/y; non-RAC components, 68% y/y.
- In Q2, the company converted a large MNC customer from gas charging to full ODM solution. It has onboarded a customer for tower ACs. It has built a strong orderbook of light commercial ACs.
- Utilisation at the components plant was ~65%. Seasonal RAC utilisation at the Sricity plant was 65%; at the Dehradun plant it was 85%. Without additional capex Amber can add 40% revenue.
- Management highlighted that the JV for washing machines is shaping up well; the company is fortifying its position in consumer durables. It has onboarded four customers and is in talks with eight. Commercial production is expected from Q3.

Electronics

- Revenue zoomed 98.4% y/y, with the EBITDA margin up 7.7% y/y. Ascent Circuits' Q2 revenue was 830m, with a ~19.9% EBITDA margin.
- Amber has customers in auto, telecoms, "smart" meter components, and Defence in PCBs.
- End-segment PCB revenue mix: autos 65%, telecoms 15%, Defence 20%.
- The company has won Defence orders.
- Ascent Circuits is operating at ~85% capacity. At current capacity, Rs4bn peak revenue can be attained.
- The company is setting up a PCB plant in Hosur with an annual capacity of 840,000 sq.mt., in two phases. Capex is pegged at ~Rs6.5bn, of which ~50% will be paid back via incentives. Production is expected

to start from H2 FY26. The asset turn for this plant (adjusted for incentives) is expected at ~1.5x.

- The company has signed a 70:30 JV with Korea Circuit to expand its offering to HDI, Flex and Semi-Conductor Substrates. The JV will also enable it to make in-roads into newer segments incl. mobiles, IT, modules and semiconductors. The company has entered into a full buyback arrangement with Korea Circuits for the first two years, which will be tapered down in two years.
- The company anticipates the new SPECS schemes for bare boards to be rolled out in 3-4 months, after which it will announce an updated capex plan by Q2 FY26, with significant expenditure planned for FY27.

Railway sub-systems and mobility

- Revenue fell 6% in Q2 due to i) delays in the Mumbai metro-rail project owing to shortage of rolling stock sub-systems; ii) delays in the 200 Vande Bharat Express project due to changes in coach composition; iii) shift in the Indian Railways' FY25 focus to non-AC coaches.
- Management expects the railway sub-systems and mobility divisions' revenue to be flat in FY25. However, it maintains its guidance to double FY24 revenue by FY27.
- SIDWAL margins have been depressed due to lower operating leverage. Management expects them to bounce back as operating leverage comes in FY26.
- It expects to commence operation from the new greenfield plant for SIDWAL from Q1 FY26; mass production would begin from Q4.
- It continues to focus on expanding customers' wallet shares through increasing components.
- Product trials for couplers, gears and pantographs under the Yujin JV are expected to begin by Q4 FY25/Q1 FY26. Management expects revenue from these products from Q4 FY26.
- The Defence application business is also seeing robust momentum with a growing orderbook.
- The end-Q1 orderbook was Rs20bn+. Management expects orders in coming quarters.

Outlook & Estimates

We believe the medium-term outlook for Amber is bright, underpinned by secular tailwinds in electronics and mobility. We model 25.2%/73.4% revenue/earnings CAGRs over FY24-27, expecting them at 37%/47.7% in FY27, up from 25.6%/32.1% in FY24, driving RoCE to 21.4% (from 8.3%) and EPS expansion from Rs39.4 to Rs193.8.

Following Q2, we raise our FY25e and FY26e growth, primarily due to an anticipated stronger performance in consumer durables. We adjust our margin estimates downward, however, due to changes in the product mix. While we increase our FY25e PAT, we reduce FY26e due to higher depreciation and finance costs of the greenfield plant. We also introduce FY27e and roll forward our valuation. We maintain a Buy recommendation with a higher target price of Rs.8,125 (up from Rs 5,553), based on 42x FY27e EPS. At the CMP, the stock trades at 56.1x/33.1x FY26e/FY27e EPS of Rs114.2/193.8.

Fig 8 – Estimates change

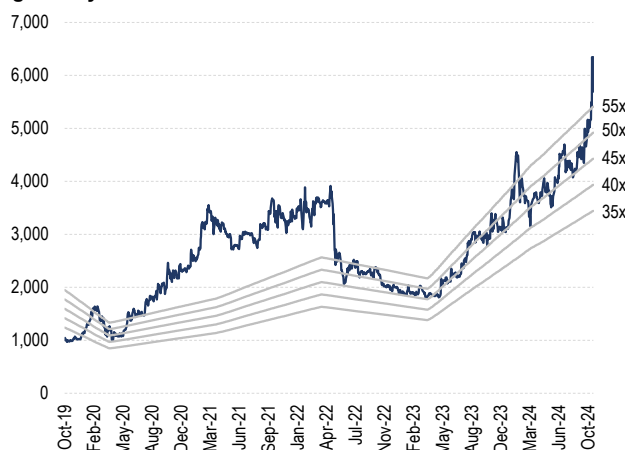
	Actual	New		Old		Variance (%)	
(Rs m)	FY24	FY25e	FY26e	FY25e	FY26e	FY25	FY26
Revenue	67,293	91,037	1,09,208	84,155	1,03,136	8.2	5.9
EBITDA	4,919	6,973	8,937	6,639	8,720	5.0	2.5
EBITDA (%)	7.3	7.7	8.2	8.2	8.6	(55) bps	(43) bps
PBT	1,937	3,697	5,173	3,474	5,514	6.4	(6.2)
PAT	1,329	2,663	3,849	2,470	4,158	7.8	(7.4)
EPS	39.4	78.9	114.0	73.3	123.4	7.6	(7.6)

Source: Company, Anand Rath Research

Key risks

- Slower-than-expected growth in the mobility and electronics categories could lead to us pruning estimates.
- Weaker offtake of RACs in H2 could lead us to trim FY25 revenue growth.

Fig 9 – 1-yr forward P/E Band



Source: Company, Anand Rath Research

Fig 10 – Stocks trades at near its mean



Source: Company, Anand Rath Research

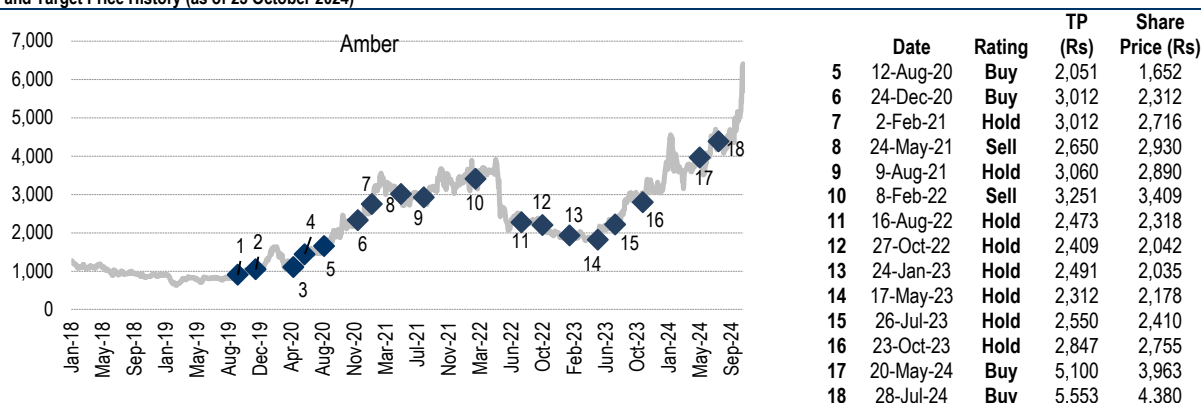
Appendix

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Rating and Target Price History (as of 23 October 2024)



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	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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