



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. 21,564 cr
52-week high/low:	Rs. 6815/2818
NSE volume: (No of shares)	33.62 lakh
BSE code:	540902
NSE code:	AMBER
Free float: (No of shares)	18.2 cr

Shareholding (%)

Promoters	39.8
FII	25.8
DII	14.8
Others	19.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	50.8	57.9	56.1	115.8
Relative to Sensex	52.8	55.3	42.9	94.5

Sharekhan Research, Bloomberg

Amber Enterprises

Accelerating growth across all segments

Capital Goods

Sharekhan code: AMBER

Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 6,400

Price Target: Rs. 7,350



Downgrade

Summary

- Q2 numbers were strong with a profit of Rs. 21 crore (versus a loss in the same quarter last year), superseding our estimates of Rs. 9 crore. Revenues rose 82% y-o-y (above our estimates of 37%) led by Consumer Durables (94% growth y-o-y) and Electronics (95% y-o-y) segments.
- Operating profits significantly jumped by 91% y-o-y contributed by humongous revenue growth and a slight rise in margins.
- Consumer durables segment growth is led by channel filling. RAC segment grew 104%, while Non-RAC vertical grew by 68%.
- We maintain a Buy rating, factoring in the long-term revenue growth triggers across segments with a revised PT of Rs. 7,350 (based on 41x of FY2027E EPS) At CMP, the stock trades at a valuation of 81x/49x/36x its FY2025E/FY2026E/FY2027E EPS.

Over the past 3-4 years, Amber has diversified business from standalone RAC segment to electronics and railway segments, which is now reaping fruits for the company. Each segment will contribute meaningfully in revenues and bottom line over next 2-3 years. Q2FY25 revenues rose 82% led by robust growth across segments. Consumer durables segment grew by 94% supported by strong RAC demand owing to prolonged summers and channel filling. Electronics segment grew by 95% led by strong order execution and further cushioned by antidumping duty on PCB's. Railway sub-systems and mobility segment had a moderate decline in revenue due to a delay in metro and rail projects across regions but management is confident and expects the segment to contribute significantly in 2026. The company expects to double revenues in the electronics and railway subsystem segments in the next few years. Consolidated EBITDA margins improved by 40 bps to 6.8% from 6.4% leading the EBITDA growth of 91% to reach Rs 114 crore. Overall, PAT turned around at Rs 21 crore as against a loss in comparable quarter last year.

Key positives

- Consumer durables and electronics segments clocked robust growth. RAC segment grew by 104% whereas non-RAC grew by 68%.
- Expansion in product portfolios such as Tower AC Window, Window Top Throw Inverter Series, Tropical high efficiency split air conditioners and cassette air conditioners. Onboarded a new customer in tower ACs.
- Electronics division's diversification into new business applications through PCBA and Bare PCB manufacturing. Subsidiary Ascent plant's expansion has started and JV with Korea circuit for manufacturing HDI, Flex and semiconductor PCB's opens up new opportunities.

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 Railway projects across regions.

Management Commentary

- RAC industry momentum continued in Q2 supported by weather and channel filling. The washing machine manufacturing JV with Resojet is expected to kick in by Q4 of current year.
- Entered JV with Korea Circuits for manufacturing HDI, Flex and semiconductor PCBs strengthening the bare offerings as comprehensive integrated full stack player. The alliance comes with a Buyback option from Korean firm for two years.
- 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 ACs 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 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 & Mobility segment.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 7,350: 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 for Amber. 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 ~27%/~63% (FY2024-FY2027E). We maintain a Buy rating with a revised price target (PT) of Rs. 7,350 based on 41x of FY2027E 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	FY24	FY25E	FY26E	FY27E
Net Sales	6,927	6,729	9,084	11,355	13,853
Operating Profit Margin (%)	6.0	7.3	7.5	8.0	8.0
PAT	157	139	281	456	603
Growth (%)	44.5	(11.4)	101.5	62.6	32.1
EPS (Rs.)	46.7	41.3	83.3	135.4	178.9
P/E (x)	137.2	154.9	76.9	47.3	35.8
EV/EBITDA (x)	53.5	45.8	33.2	25.0	20.3
RoCE (%)	10.3	10.5	14.9	19.5	21.7
RoE (%)	8.7	7.1	12.9	18.0	19.6

Source: Company; Sharekhan estimates

Q2FY2025 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. Management has guided to grow above the industry growth of ~36% in RAC segment.

Electronics division: The company began this division for the sale of inverter ACs, but it now has diversified it into providing solutions for home appliances, consumer electronics, wearables, hearables, telecom, and automobile segments. The expansion of Ascent electronics and JV with Korea circuits will be the key growth drivers. Bare PCB market is estimated to be Rs. 32,000 crore and expected to reach Rs 50,000 crore by 2030 with 90% imports, which Amber can leverage upon for end use in IT, mobiles, semiconductors, etc. These initiatives, along with exports give Amber the confidence to double its electronics revenues over FY25-27E with 8%+ OPM and healthy ROCE. Further, its capex requirements for Ascent will be at Rs. 550-600 crore over the next 2-3 years (approved for SPECS-I for Rs. 256 crore; 60% subsidy; Q4FY26E), with further capex for its MoU with Korea circuit. Management expects an incentive scheme to be introduced by government in coming months after which Amber would open up its strategy and capex to be laid out to manufacture HDI and flexboards.

Railway subsystems and mobility: The company's order book stood at Rs. 2,000 crore. 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.

Consumer Durables: Amber is looking to grow ahead of industry (36%) for FY25E on strong components, which has helped maintain its 26% mkt share (in value). New customer onboarded for tower AC and converted a big MNC customer from Gas charging to full ODM solutions. The manufacturing of front end and tope end fully automatic machines is expected to kick in by Q4FY25. Amber highlighted it can triple its RAC division over the next three years on industry growth, components (70% of BOM; ex compressor) and expansion in ductable ACs.

Results (consolidated)

Particulars	Q2FY25	Q2FY24	YoY %	Q1FY25	QoQ %
Net Sales	1,685	927	81.7	2,401	-29.8
Operating Profit	114	60	90.9	196	-42.0
Depreciation	57	45	25.2	55	3.1
Interest	49	37	33.0	52	-6.2
Other Income	18	13	39.9	21	-13.8
PBT	24	(9)	NA	104	-77.4
Tax	3	(4)	NA	30	-91.1
Adjusted PAT	21	(6)	-471.3	75	-71.9
Adjusted EPS (Rs.)	5.7	(2.1)	-375.7	21.4	-73.5
Margins			BPS		BPS
OPM (%)	6.8	6.4	40	8.2	-140
NPM (%)	1.2	(0.6)	180	3.1	-190

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 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 a wider range of product offerings and customer penetration are likely to drive company's performance in addition to a healthy demand outlook for the electronics outsourcing industry.

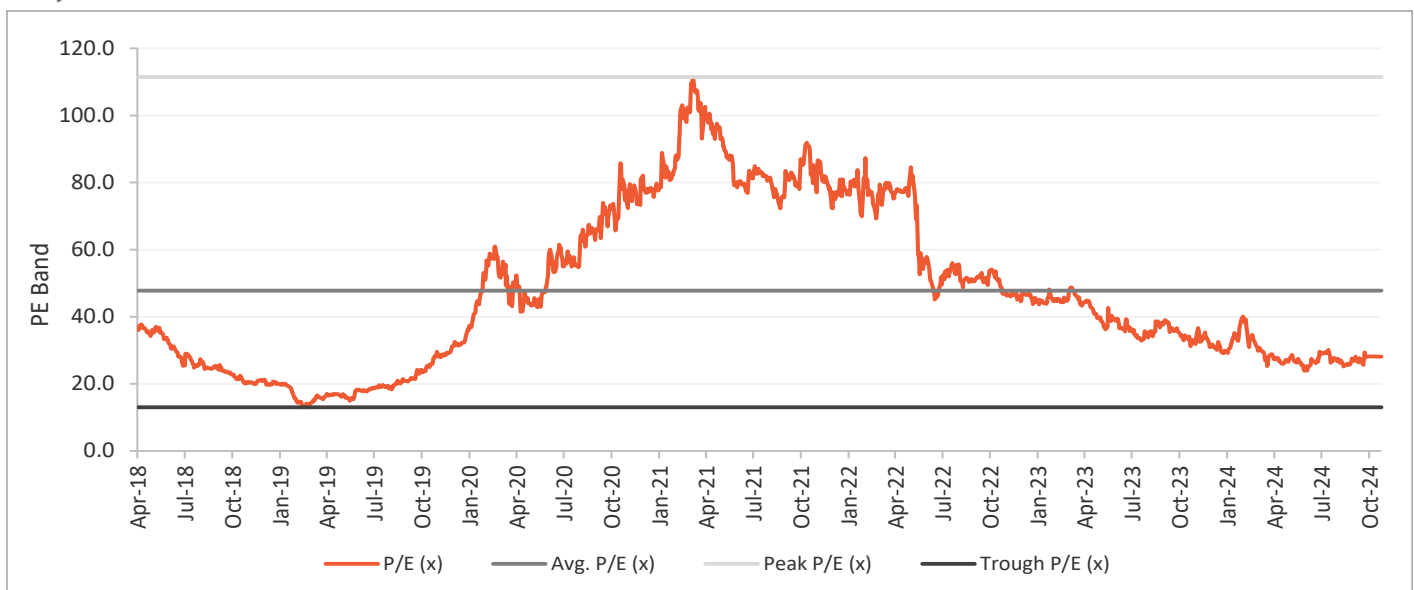
■ Company outlook - Long runway for growth

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. 7,350

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 for Amber. 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 ~27%/~63% (FY2024-FY2027E). We maintain a Buy rating with a revised price target (PT) of Rs. 7,350 based on 41x of FY2027E 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
Konica Yadav	Company Secretary and Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Government of Singapore	5.71
2	Kotak Mahindra Asset Management	4.85
3	Ascent Investment Holdings	4.27
4	Government of Singapore	3.26
5	Vanguard Group Inc/The	2.24
6	Sundaram Asset Management Co Ltd	1.04
7	Motilal Oswal Asset Management	1.95
8	DSP Investment Managers Co Ltd	1.83
9	Goldman Sachs Group	1.79
10	L&T Mutual Fund Trustee Ltd.	1.72

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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