

**HOLD**  
 TP: Rs 2,500 | ▲ 10%

**AMBER ENTERPRISES**

Consumer Durables

26 July 2023

**Topline wavers, margins progressing**

- Q1 revenue weak given the “worst of bad seasons”, though margins improved on a better product mix
- Strategic shift towards components working in favour of Amber; mobility business offers a large opportunity
- TP raised to Rs 2,500 (vs. Rs 2,260) on rollover; maintain HOLD

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**Revenue a miss, margins shine:** Amber’s topline at Rs 17bn (-7% YoY) faltered due to unseasonal weather patterns and sluggish demand in the room air conditioner (RAC) business. On the other hand, EBITDA grew 33% YoY with 230bps margin expansion owing to a favourable change in product mix as the contribution of components increased.

**Segmental performance:** The RAC and components business (73% of revenue) declined 14% YoY during the quarter, while motors, electronics and mobility business grew by 5%, 28% and 9% respectively. Management expects the mobility business to grow rapidly amid burgeoning business opportunities.

**Industry expected to grow ~8% in FY24:** The AC industry had a poor first quarter on account of unseasonal rains during peak summer season which saw industry sale volumes decline 20-25%. However, management expects the industry to post full-year growth of 7-8% to ~9mn units, with Amber’s RAC business growing 3-4% ahead of the industry.

**Upbeat guidance:** Management has maintained its EBITDA growth guidance of 25-30% for FY24 and continues to expect above-market growth in the RAC business. The electronics, motors and mobility divisions are guided to grow by 35-40%, 20-25% and 15-20% respectively for the year, despite one of the worst seasons in Q1.

**Soft RAC outlook:** The structural shift in RAC manufacturing, where outsourcing has fallen to 30% in FY23 vs. 41% in FY21 due to production-linked incentive announcements, appears to have been offset by Amber’s prudent shift towards component manufacturing. That said, the RAC business remains beset by challenges from an unfavourable demand climate, competition and erratic weather.

**Retain HOLD:** We value the stock at an unchanged 27x P/E multiple – a 40% discount to the stock’s 3Y average – and roll valuations over to Jun’25E, leading to a revised TP of Rs 2,500 from Rs 2,260. Given the soft RAC outlook and limited upside potential post runup in Amber’s stock price, we retain HOLD.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	AMBER IN/Rs 2,265
Market cap	US\$ 928.6mn
Free float	60%
3M ADV	US\$ 6.4mn
52wk high/low	Rs 2,580/Rs 1,763
Promoter/FPI/DII	40%/24%/14%

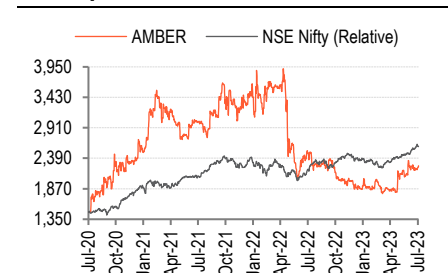
Source: NSE | Price as of 25 Jul 2023

**Key financials**

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	69,271	85,232	1,01,221
EBITDA (Rs mn)	4,179	5,173	6,343
Adj. net profit (Rs mn)	1,572	2,034	2,822
Adj. EPS (Rs)	46.7	60.4	83.8
Consensus EPS (Rs)	46.7	65.5	91.7
Adj. ROAE (%)	8.6	10.1	12.6
Adj. P/E (x)	48.5	37.5	27.0
EV/EBITDA (x)	18.3	14.7	12.0
Adj. EPS growth (%)	44.0	29.4	38.8

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	17,020	18,257	(6.8)	30,026	(43.3)
EBITDA	1,319	992	32.9	2,035	(35.2)
EBITDA Margin (%)	7.8	5.4	230bps	6.8	100bps
Depreciation	433	322	-	388	-
Interest	453	211	-	375	-
Other Income	193	128	-	187	-
PBT	627	589	6.5	1,459	(57.0)
Tax	161	160	-	378	-
Reported PAT	456	420	8.5	1,040	(56.1)
Adj. PAT Margin (%)	2.7	2.3	40bps	3.5	(70bps)
EPS (Rs)	13.8	12.7	8.7	32.1	(56.9)

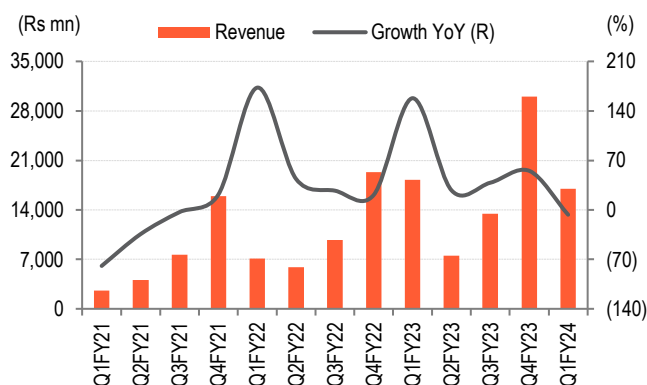
Source: Company, BOBCAPS Research

**Fig 2 – Segment-wise performance**

Particulars (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Revenue</b>					
RAC and Components	14,400	3,570	10,250	23,710	12,440
Mobility	950	1,050	1,100	1,130	1,040
Motors	830	470	720	1,050	870
Electronics	2,080	2,410	2,610	4,150	2,670
<b>EBIT</b>					
RAC and Components	860	120	440	1,400	960
EBIT Margin (%)	6.0	3.4	4.3	5.9	7.7
Mobility	260	250	200	280	210
EBIT Margin (%)	27.4	23.8	18.2	24.8	20.2
Motors	100	50	110	160	100
EBIT Margin (%)	12.0	10.6	15.3	15.2	11.5
Electronics	90	80	130	210	110
EBIT Margin (%)	4.3	3.3	5.0	5.1	4.1

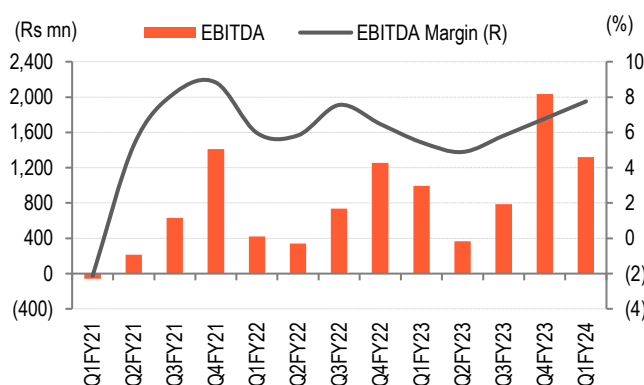
Source: Company, BOBCAPS Research

**Fig 3 – Revenue growth trend**



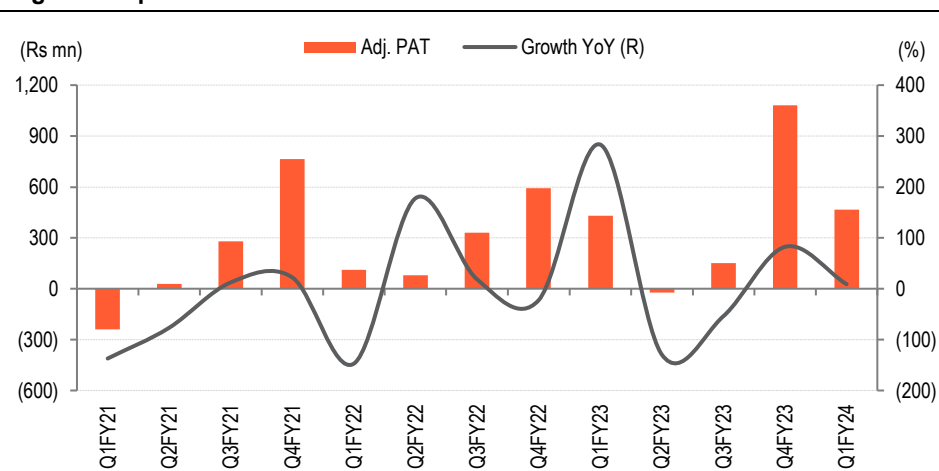
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA trend**



Source: Company, BOBCAPS Research

**Fig 5 – Net profit trend**



Source: Company, BOBCAPS Research

### Earnings call highlights

- Margins:** Amber achieved a 7.8% EBITDA margin in Q1FY24, an expansion of 230bps YoY despite tepid industry-wide RAC demand. The company believes the current margin is sustainable given its strategy of focusing on component manufacture, which has led to a change in product mix. Management has also maintained guidance of a 25-30% rise in EBITDA for FY24. The company achieved adjusted ROCE of 15% in Q1 and expects a 16-16.5% print in FY24, rising further to 19-21% in 2-3 years.
- Pricing:** No pricing action was taken in Q1 given stable commodity prices.
- Sidwal Refrigeration:** The management expects to double the topline and bottomline in refrigeration subsidiary Sidwal by next year and sees sustainable operating margins of 20-22% for this business.
- Working capital:** Inventory levels were high during the quarter owing to unseasonal weather patterns and sluggish demand in the RAC industry. Management expects this to normalise by Q2. However, it also anticipates slower primary sales as secondary sales likely ease.
- Capacity utilisation:** Utilisation for the quarter stood at 50-55% for motors, RACs and Sidwal, and 65-70% for a part of the components business.
- RAC and components:** The proportion of RAC revenue is reducing for Amber, such that RAC and components are currently split 50:50 as opposed to a 70:30 mix a few years ago. The quarter saw 170bps EBIT margin expansion in the RAC and components segment owing to the change in product mix. Management expects the RAC industry to grow by 7-8% in FY24 and for Amber to overshoot this growth by 3-4%.
- Mobility:** With new product additions, Amber expects its wallet share in the mobility segment to increase from Rs 2mn-2.5mn to Rs 7.5mn-8mn. It also expects the segment to double in the next 2-3 years given the increase in transport infrastructure such as railways, roadways and highways. This business is guided to grow 15-20% in FY24 with sustainable operating margins between 20% and 22%.

- **Electronics:** Management expects to grow by 35-40% in the electronics segment owing to increased efforts by the government to foster local manufacturing. The manufacture of printed circuit board assemblies (PCBA), which are currently imported to a large extent, offers significant opportunities for Amber.
- **Motors:** The motors segment fared well owing to new product introductions in previous quarters. Management expects the business to grow 20-25% for FY24.

## Valuation methodology

The structural shift in RAC manufacturing, where outsourcing has fallen to 30% in FY23 vs. 41% in FY21 due to production-linked incentive announcements, appears to have been offset by Amber's prudent shift towards component manufacturing. That said, the RAC business remains beset by challenges from an unfavourable consumer environment, high competition and erratic weather.

We value the stock at an unchanged 27x P/E multiple – a 40% discount to the stock's three-year average – and roll valuations over to Jun'25E, leading to a revised TP of Rs 2,500 from Rs 2,260. Given the soft RAC outlook and limited upside potential post runoff in Amber's stock price, we retain HOLD.

## Key risks

Key risks to our estimates are:

- **Upside risk:** Better-than anticipated growth in newer verticals
- **Downside risk:** Disruption in the RAC business amidst rising competition and policy changes; weak export order book

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.9	2,265	2,500	HOLD
Blue Star	BLSTR IN	0.9	776	1,650	BUY
Crompton Greaves	CROMPTON IN	2.2	287	370	BUY
Dixon Technologies	DIXON IN	3.0	4,113	4,300	HOLD
Havells India	HAVL IN	9.9	1,304	1,600	BUY
Orient Electric	ORIENTEL IN	0.6	231	240	HOLD
Polycab India	POLYCAB IN	8.5	4,693	5,000	BUY
V-Guard Industries	VGRD IN	1.5	281	270	HOLD
Voltas	VOLT IN	3.1	767	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 25 Jul 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>30,305</b>	<b>42,064</b>	<b>69,271</b>	<b>85,232</b>	<b>1,01,221</b>
EBITDA	2,203	2,754	4,179	5,173	6,343
Depreciation	923	1,079	1,391	2,490	2,645
EBIT	1,280	1,675	2,788	2,683	3,699
Net interest inc./(exp.)	(410)	(464)	(1,118)	(597)	(685)
Other inc./(exp.)	331	332	527	632	758
Exceptional items	0	0	0	0	0
EBT	1,201	1,543	2,197	2,718	3,771
Income taxes	369	429	559	684	949
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>833</b>	<b>1,092</b>	<b>1,572</b>	<b>2,034</b>	<b>2,822</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>833</b>	<b>1,092</b>	<b>1,572</b>	<b>2,034</b>	<b>2,822</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	13,169	17,021	23,039	34,560	41,043
Other current liabilities	1,402	2,263	3,778	4,586	5,446
Provisions	0	0	0	0	0
Debt funds	3,843	10,318	13,437	11,939	13,710
Other liabilities	1,410	2,180	3,091	3,700	4,309
Equity capital	337	337	337	337	337
Reserves & surplus	15,704	17,005	18,751	20,717	23,438
Shareholders' fund	16,041	17,342	19,088	21,054	23,775
<b>Total liab. and equities</b>	<b>35,866</b>	<b>49,125</b>	<b>62,433</b>	<b>75,838</b>	<b>88,282</b>
Cash and cash eq.	2,899	5,626	5,594	5,718	12,640
Accounts receivables	10,690	13,149	17,631	24,169	27,233
Inventories	7,163	8,408	10,913	15,233	17,018
Other current assets	1,207	2,497	4,227	5,201	6,176
Investments	0	0	0	0	0
Net fixed assets	7,864	10,791	17,891	19,001	18,356
CWIP	288	1,056	130	159	189
Intangible assets	3,721	4,487	4,698	4,698	4,698
Deferred tax assets, net	0	0	0	0	0
Other assets	2,033	3,110	1,350	1,661	1,972
<b>Total assets</b>	<b>35,866</b>	<b>49,125</b>	<b>62,433</b>	<b>75,838</b>	<b>88,283</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>2,051</b>	<b>1,418</b>	<b>3,206</b>	<b>5,022</b>	<b>6,985</b>
Capital expenditures	(1,845)	(4,137)	(6,535)	(3,600)	(2,000)
Change in investments	(1,433)	(1,482)	1,337	0	0
Other investing cash flows	(1,531)	(1,365)	310	267	268
<b>Cash flow from investing</b>	<b>(4,810)</b>	<b>(6,984)</b>	<b>(4,888)</b>	<b>(3,333)</b>	<b>(1,732)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	4,097	6,031	3,025	(1,498)	1,771
Interest expenses	0	0	0	0	0
Dividends paid	(397)	(476)	(1,097)	(67)	(101)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>3,700</b>	<b>5,555</b>	<b>1,928</b>	<b>(1,566)</b>	<b>1,670</b>
<b>Chg in cash &amp; cash eq.</b>	<b>941</b>	<b>(11)</b>	<b>246</b>	<b>123</b>	<b>6,922</b>
<b>Closing cash &amp; cash eq.</b>	<b>2,899</b>	<b>5,626</b>	<b>5,594</b>	<b>5,718</b>	<b>12,640</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	24.7	32.4	46.7	60.4	83.8
Adjusted EPS	24.7	32.4	46.7	60.4	83.8
Dividend per share	1.6	1.6	0.0	2.0	3.0
Book value per share	476.1	514.7	566.5	624.9	705.6

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	2.5	1.8	1.1	0.9	0.8
EV/EBITDA	34.6	27.7	18.3	14.7	12.0
Adjusted P/E	91.6	69.9	48.5	37.5	27.0
P/BV	4.8	4.4	4.0	3.6	3.2

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	69.3	70.8	71.6	74.8	74.8
Interest burden (PBT/EBIT)	93.9	92.1	78.8	101.3	102.0
EBIT margin (EBIT/Revenue)	4.2	4.0	4.0	3.1	3.7
Asset turnover (Rev./Avg TA)	3.9	3.9	3.9	4.5	5.5
Leverage (Avg TA/Avg Equity)	0.6	0.6	1.0	0.9	0.8
Adjusted ROAE	6.1	6.5	8.6	10.1	12.6

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	(23.5)	38.8	64.7	23.0	18.8
EBITDA	(28.8)	25.0	51.8	23.8	22.6
Adjusted EPS	(49.3)	31.1	44.0	29.4	38.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	7.3	6.5	6.0	6.1	6.3
EBIT margin	4.2	4.0	4.0	3.1	3.7
Adjusted profit margin	2.7	2.6	2.3	2.4	2.8
Adjusted ROAE	6.1	6.5	8.6	10.1	12.6
ROCE	6.4	5.9	7.9	7.5	9.3
<b>Working capital days (days)</b>					
Receivables	129	114	93	103	98
Inventory	86	73	58	65	61
Payables	159	148	121	148	148
<b>Ratios (x)</b>					
Gross asset turnover	2.8	3.2	3.6	3.4	3.6
Current ratio	1.3	1.1	1.1	1.0	1.1
Net interest coverage ratio	3.1	3.6	2.5	4.5	5.4
Adjusted debt/equity	0.2	0.6	0.7	0.6	0.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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**BUY** – Expected return >+15%

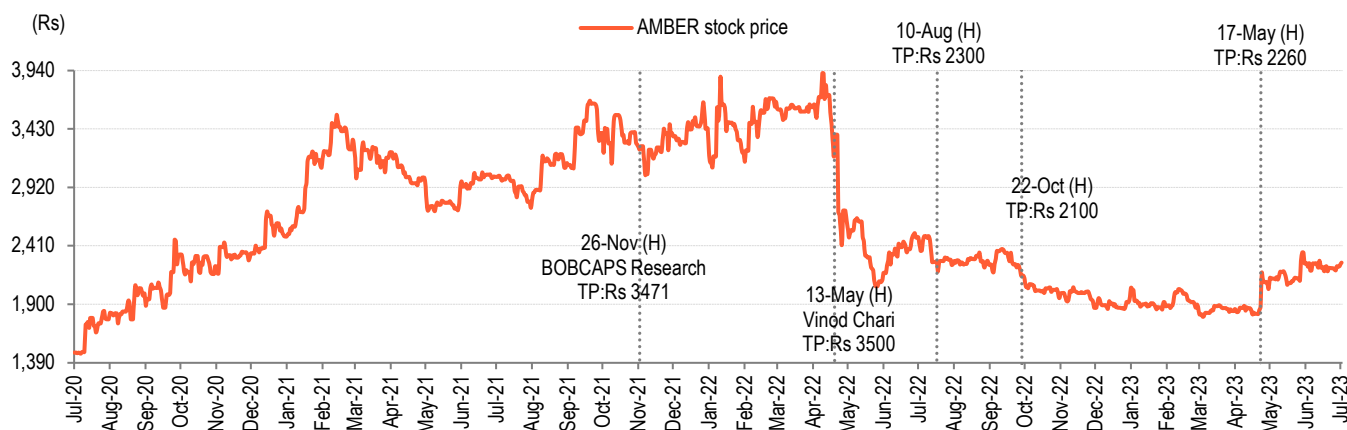
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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### Ratings and Target Price (3-year history): AMBER ENTERPRISES (AMBER IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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