

HOLD

TP: Rs 2,900 | ▲ 4%

AMBER ENTERPRISES

Consumer Durables

23 October 2023

Healthy topline; RAC outlook still soft

- Q2 topline up 23% YoY with better margins due to dry weather in an otherwise unseasonal quarter for cooling products
- Strong mobility orders and new customers in electronics business offer scope for growth, but core RAC outlook still muted
- FY24/FY25 EPS raised 3%/7% and target P/E raised to 29x (vs. 27x), leading to a new TP of Rs 2,900 (vs. Rs 2,500); retain HOLD

Vinod Chari | Arshia Khosla
Swati Jhunjhunwala
research@bobcaps.in

Dry weather aids topline growth: Amber saw healthy topline growth of 23% YoY to Rs 9.3bn due to dry weather in most parts of India during Q2FY24, which is otherwise an unseasonal quarter for cooling products. EBITDA increased 62% YoY with 150bps margin expansion to 6.4% owing to a favorable change in product mix as the contribution of components increased. The company, however, reported a loss of Rs 57mn for the quarter due to high interest costs and depreciation.

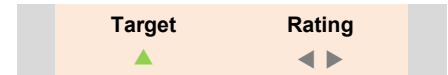
Growth across segments: The consumer durables business improved 35% YoY to Rs 5.5bn during Q2, while electronics and mobility revenue at Rs 2.5bn and Rs 1.3bn grew by 3% and 26% respectively. Management expects the electronics and mobility businesses to grow rapidly amid burgeoning business opportunities.

Large opportunity in PCBAs: Amber is entering wearable and hearable telecom products through its joint venture with smart wearable brand Noise. The company also sees an opportunity to capture printed circuit board assembly (PCBA) demand in India for non-smartphone applications which is currently met by imports. Management has maintained its EBITDA growth guidance of 30-35% for the electronics division in FY24 and continues to expect above-market growth in the room air conditioning (RAC) business.

Customer addition to boost RAC components business: Given the large industry size for RAC components (estimated at Rs 165bn-170bn in FY23) and Amber's backward integration plans, management expects ongoing customer additions to spur growth.

Retain HOLD: We raise our FY24/FY25 EPS estimates by 3%/7% to incorporate the Q2 performance and bake in the improved outlook for Amber's non-AC business by valuing the stock at a new 29x P/E multiple (27x earlier) – a 30% discount to the 3Y average. Upon rolling valuations over to Sep'25E, we arrive at a revised TP of Rs 2,900 (vs. Rs 2,500). Given the soft RAC outlook – we estimate single-digit industry volume growth in FY24 – and limited upside potential following the runup in Amber's stock price, we continue with our HOLD rating.

Key changes



Ticker/Price	AMBER IN/Rs 2,794
Market cap	US\$ 1.1bn
Free float	60%
3M ADV	US\$ 7.2mn
52wk high/low	Rs 3,150/Rs 1,763
Promoter/FPI/DII	40%/24%/14%

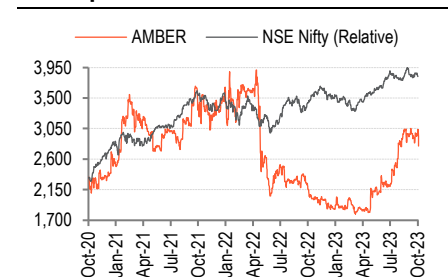
Source: NSE | Price as of 23 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	69,271	85,232	1,01,221
EBITDA (Rs mn)	4,179	5,258	6,596
Adj. net profit (Rs mn)	1,572	2,097	3,011
Adj. EPS (Rs)	46.7	62.3	89.4
Consensus EPS (Rs)	46.7	62.0	90.0
Adj. ROAE (%)	8.6	10.4	13.3
Adj. P/E (x)	59.9	44.9	31.3
EV/EBITDA (x)	22.5	17.9	14.3
Adj. EPS growth (%)	44.0	33.4	43.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue	9,271	7,504	23.5	17,020	(45.5)	26,291	25,762	2.1
EBITDA	596	367	62.5	1,319	(54.8)	1,915	1,359	40.9
EBITDA Margin (%)	6.4	4.9	150bps	7.8	(130bps)	7	5	200bps
Depreciation	452	318		433		885	640	
Interest	366	244		453		818	454	
Other Income	127	122		193		321	250	
PBT	(95)	(73)	29.3	627	(115.1)	532	515	3.3
Tax	(38)	(50)		161		123	109	
Adjusted PAT	(57)	(30)	88.9	456	(112.4)	410	406	0.9
Exceptional item	-	-		0		0	0	
Reported PAT	(57)	(30)	88.9	456	(112.4)	400	391	2.4
Adj. PAT Margin (%)	(0.6)	(0.4)	(20bps)	2.7	(330bps)	2	2	0bps
EPS (Rs)	(1.7)	(0.7)	145.5	13.8	(112.1)	12	12	0.9

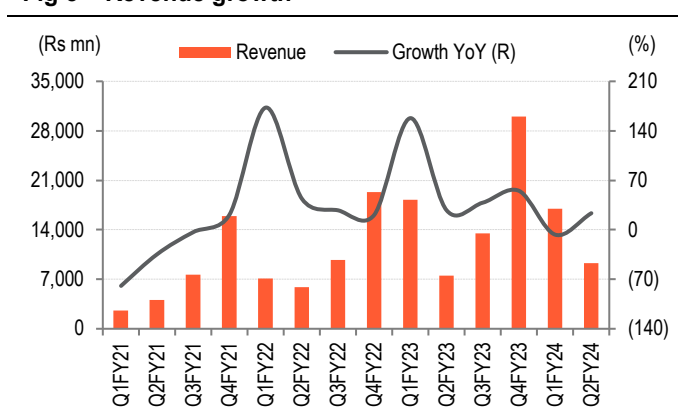
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

Particulars (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Revenue						
Mobility	950	1,050	1,100	1,130	1,040	1,320
Electronics	2,080	2,410	2,610	4,150	2,670	2,480
Consumer Durables	15,230	4,040	10,970	24,760	13,310	5,470
EBIT						
Mobility	260	250	200	280	210	310
EBIT Margin (%)	27.4	23.8	18.2	24.8	20.2	23.5
Electronics	90	80	130	210	110	130
EBIT Margin (%)	4.3	3.3	5.0	5.1	4.1	5.2
Consumer Durables	960	170	550	1,560	1,060	210
EBIT Margin (%)	6.3	4.2	5.0	6.3	8.0	3.8

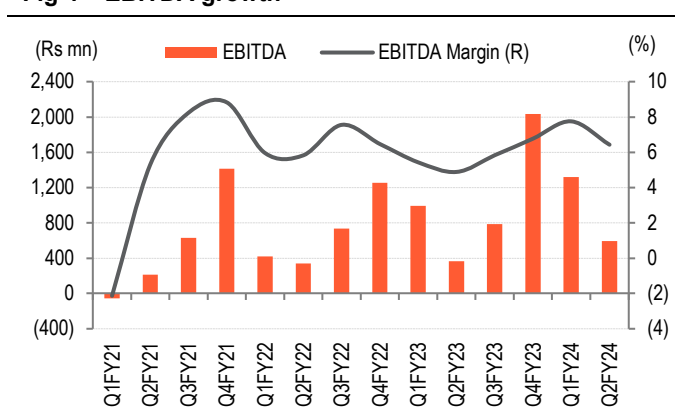
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



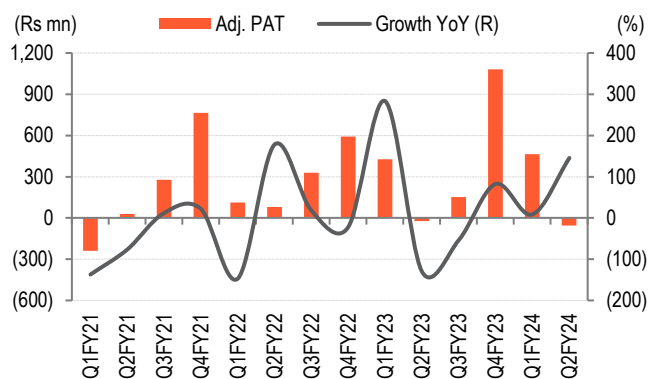
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



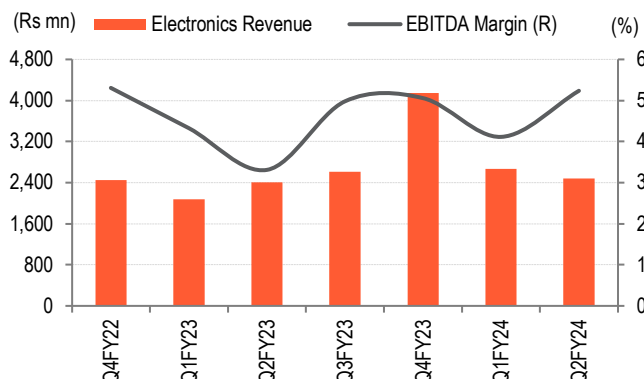
Source: Company, BOBCAPS Research

Fig 5 – Net profit growth



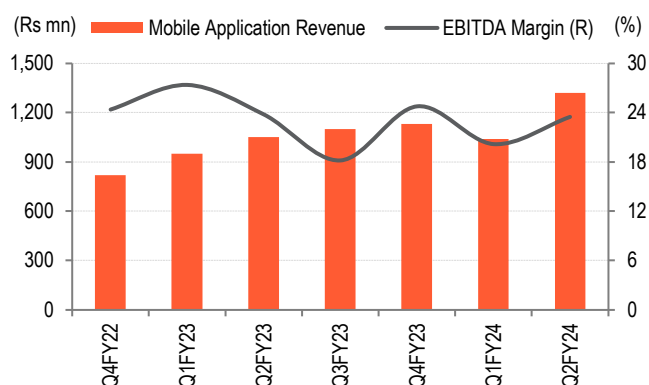
Source: Company, BOBCAPS Research

Fig 6 – Electronics business growth



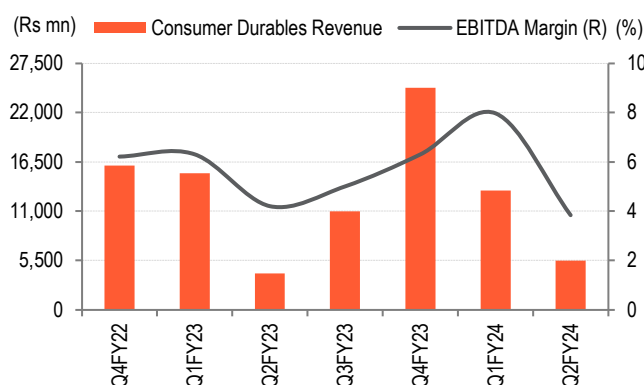
Source: Company, BOBCAPS Research

Fig 7 – Mobile Application business growth



Source: Company, BOBCAPS Research

Fig 8 – Consumer durables business growth



Source: Company, BOBCAPS Research

Earnings call highlights

- RAC outlook:** India’s RAC industry volumes are expected to grow in single digits during FY24. Per the company, the industry has clocked a 15% CAGR over the last five years from 4.2mn units to 8.5mn units and is expected to grow at an 18.7% CAGR to 20mn units in the next five years. Amber’s RAC revenue contribution stood at 40% during Q2FY24.
- Inventory:** As the quarter saw dry weather across India, demand bounced back and helped dealers to liquidate inventory. Management believes this is likely to support normalisation of channel inventory by the end of Q3FY24.
- Consumer durables business:** Amber entered an exclusive JV with smart wearable brand Noise for wearables and hearables during Q2. It will be setting up a new plant in Noida which may be used for other clients as well. Within the segment, the company believes motors can grow by 25-30% in FY24 led by a higher contribution from exports.
- Railway subsystems and mobility business:** Amber’s order book in this segment has strengthened significantly by 75% YoY and stands at Rs 11.4bn as of Q2-end. The company is expanding into doors, gangways and other railway subsystems, in addition to its existing slate of AC products. Management expects revenue from

subsidiary Sidwal Refrigeration to grow at ~25% in FY24 and aims to double this number in the subsequent two fiscals.

- **Working capital:** The company's cash conversion cycle stood at 52 days in Q2 as compared to 39 days in the year-ago quarter. Management expects this to normalise to 30-35 days by FY24-end.
- **PLI benefits:** Amber indicated that production-linked incentive (PLI) benefits in the range of Rs 280mn-300mn should flow in Q4FY24. For FY23, PLI benefits amounted to Rs 160mn.
- **Capex:** Capex is guided to be in the range of Rs 3.5bn-3.8bn for FY24, of which Rs 1.5bn was incurred in the first half.
- **Net debt:** Gross debt stood at Rs 14.5bn at the end of Q2FY24, with a D/E ratio of 0.74x. Net debt stood at Rs 10bn and management expects to reduce this to Rs 6.5bn-6.8bn by FY24-end.

Valuation methodology

The structural shift in RAC manufacturing towards OEMs, with outsourcing to players like Amber having fallen to 30% in FY23 from 41% in FY21 due to PLI announcements, appears to have been offset by the company’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 raise our FY24/FY25E EPS estimates by 3%/7% to incorporate the company’s Q2FY24 performance and introduce FY26 forecasts. Further, we now value the stock at a 29x P/E multiple (27x earlier) – a 30% discount to the three-year average – considering an improved outlook in the mobility and electronics businesses. On rolling valuations over to Sep’25E, our TP rises to Rs 2,900 (vs. Rs 2,500). Given the soft RAC outlook – we estimate single-digit industry growth in FY24 – and limited upside potential following the runup in Amber’s stock price, we retain HOLD.

Fig 9 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	85,232	1,01,221	85,232	1,01,221	0.0	0.0
EBITDA	5,258	6,596	5,173	6,343	1.6	4.0
PAT	2,097	3,011	2,034	2,822	3.1	6.7
EPS (Rs)	62.3	89.4	60.4	83.8	3.1	6.7
EBITDA Margin (%)	6.2	6.5	6.1	6.3	10bps	30bps

Source: Company, BOBCAPS Research

Key risks

Key risks to our estimates are:

- **Upside risk:** Better-than anticipated growth in newer verticals.
- **Downside risks:** Disruption in the RAC business amidst rising competition and policy changes, along with a weak export order book.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.1	2,794	2,900	HOLD
Crompton Greaves	CROMPTON IN	2.2	280	360	BUY
Havells India	HAVL IN	9.8	1,285	1,600	BUY
KEI Industries	KEII IN	2.8	2,546	2,300	HOLD
Orient Electric	ORIENTEL IN	0.6	218	250	HOLD
Polycab India	POLYCAB IN	9.4	5,154	6,100	BUY
V-Guard Industries	VGRD IN	1.6	298	290	HOLD
Voltas	VOLT IN	3.3	821	910	HOLD

Source: BOBCAPS Research, NSE | Price as of 23 Oct 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	42,064	69,271	85,232	1,01,221	1,18,056
EBITDA	2,754	4,179	5,258	6,596	7,320
Depreciation	1,079	1,391	2,490	2,645	2,555
EBIT	1,675	2,788	2,768	3,952	4,765
Net interest inc./(exp.)	(464)	(1,118)	(597)	(685)	(779)
Other inc./(exp.)	332	527	632	758	910
Exceptional items	0	0	0	0	0
EBT	1,543	2,197	2,803	4,024	4,896
Income taxes	429	559	706	1,013	1,232
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	1,092	1,572	2,097	3,011	3,664
Adjustments	0	0	0	0	0
Adjusted net profit	1,092	1,572	2,097	3,011	3,664

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	17,021	23,039	34,560	41,043	47,869
Other current liabilities	2,263	3,778	4,586	5,446	6,352
Provisions	0	0	0	0	0
Debt funds	10,318	13,437	11,939	13,710	15,574
Other liabilities	2,180	3,091	3,700	4,309	4,950
Equity capital	337	337	337	337	337
Reserves & surplus	17,005	18,751	20,781	23,691	27,254
Shareholders' fund	17,342	19,088	21,118	24,028	27,591
Total liab. and equities	49,125	62,433	75,902	88,536	1,02,336
Cash and cash eq.	5,626	5,594	5,782	12,893	17,020
Accounts receivables	13,149	17,631	24,169	27,233	32,619
Inventories	8,408	10,913	15,233	17,018	20,474
Other current assets	2,497	4,227	5,201	6,176	7,204
Investments	0	0	0	0	0
Net fixed assets	10,791	17,891	19,001	18,356	17,801
CWIP	1,056	130	159	189	221
Intangible assets	4,487	4,698	4,698	4,698	4,698
Deferred tax assets, net	0	0	0	0	0
Other assets	3,110	1,350	1,661	1,972	2,300
Total assets	49,125	62,433	75,902	88,536	1,02,336

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	1,418	3,206	5,086	7,174	4,082
Capital expenditures	(4,137)	(6,535)	(3,600)	(2,000)	(2,000)
Change in investments	(1,482)	1,337	0	0	0
Other investing cash flows	(1,365)	310	267	268	282
Cash flow from investing	(6,984)	(4,888)	(3,333)	(1,732)	(1,718)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	6,031	3,025	(1,498)	1,771	1,864
Interest expenses	0	0	0	0	0
Dividends paid	(476)	(1,097)	(67)	(101)	(101)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	5,555	1,928	(1,566)	1,670	1,763
Chg in cash & cash eq.	(11)	246	187	7,112	4,127
Closing cash & cash eq.	5,626	5,594	5,782	12,893	17,020

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	32.4	46.7	62.3	89.4	108.7
Adjusted EPS	32.4	46.7	62.3	89.4	108.7
Dividend per share	1.6	0.0	2.0	3.0	3.0
Book value per share	514.7	566.5	626.8	713.1	818.9

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	2.2	1.4	1.1	0.9	0.8
EV/EBITDA	34.2	22.5	17.9	14.3	12.9
Adjusted P/E	86.2	59.9	44.9	31.3	25.7
P/BV	5.4	4.9	4.5	3.9	3.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	70.8	71.6	74.8	74.8	74.8
Interest burden (PBT/EBIT)	92.1	78.8	101.3	101.8	102.8
EBIT margin (EBIT/Revenue)	4.0	4.0	3.2	3.9	4.0
Asset turnover (Rev./Avg TA)	3.9	3.9	4.5	5.5	6.6
Leverage (Avg TA/Avg Equity)	0.6	1.0	0.9	0.8	0.7
Adjusted ROAE	6.5	8.6	10.4	13.3	14.2

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	38.8	64.7	23.0	18.8	16.6
EBITDA	25.0	51.8	25.8	25.4	11.0
Adjusted EPS	31.1	44.0	33.4	43.6	21.7
Profitability & Return ratios (%)					
EBITDA margin	6.5	6.0	6.2	6.5	6.2
EBIT margin	4.0	4.0	3.2	3.9	4.0
Adjusted profit margin	2.6	2.3	2.5	3.0	3.1
Adjusted ROAE	6.5	8.6	10.4	13.3	14.2
ROCE	5.9	7.9	7.7	9.8	10.4
Working capital days (days)					
Receivables	114	93	103	98	101
Inventory	73	58	65	61	63
Payables	148	121	148	148	148
Ratios (x)					
Gross asset turnover	3.2	3.6	3.4	3.6	3.9
Current ratio	1.1	1.1	1.0	1.1	1.1
Net interest coverage ratio	3.6	2.5	4.6	5.8	6.1
Adjusted debt/equity	0.6	0.7	0.6	0.6	0.6

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

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 Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
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BUY – Expected return >+15%

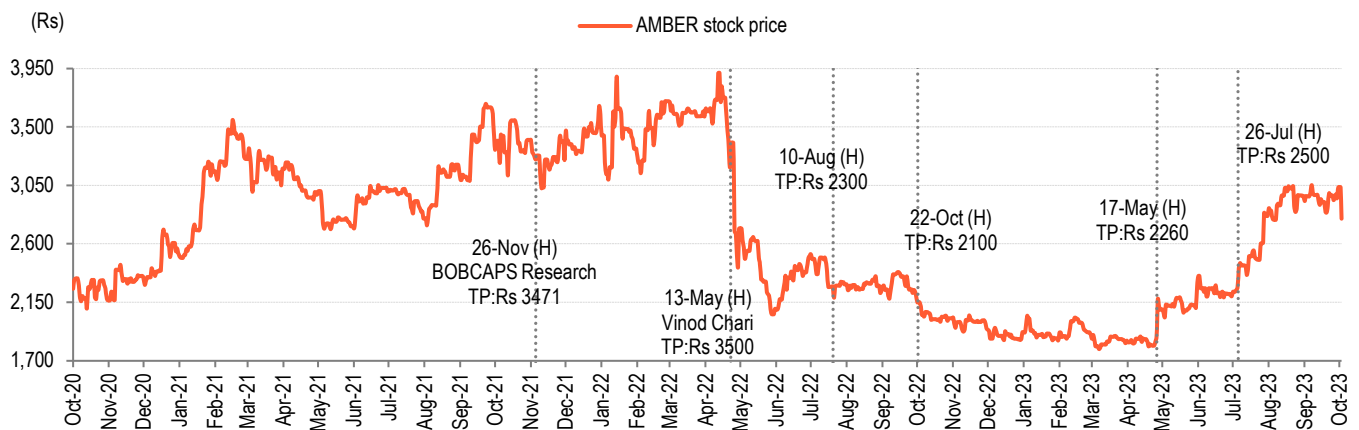
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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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