

HOLD

TP: Rs 2,260 | ▲ 4%

AMBER ENTERPRISES

Consumer Durables

17 May 2023

Strong performance on new client and capacity addition

- Q4 a beat as all segments posted strong growth, led by electronics (+69% YoY) and RAC & components (+55%)
- Strategic shift toward component manufacturing from RAC panning out well; new wearables vertical carries strong prospects
- We raise FY24/FY25 EPS by ~2% each; maintain HOLD with a revised TP of Rs 2,260 (vs. Rs 2,100)

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All-round performance: Amber posted a robust Q4FY23 with a topline of Rs 30bn (+55% YoY), ahead of our/consensus estimates by 49%/40% primarily due to new client additions in the electronics and room air conditioner (RAC) divisions. EBITDA stood at Rs 2bn (+62% YoY) with a 6.8% margin (7% est.). Net profit grew 82% YoY to Rs 1bn. Capex was at Rs 7bn in FY23 which management believes enabled Amber to better cater to customer needs, thus improving profitability and RAC market share.

Strong growth across verticals: While all segments performed well, the electronics/RAC divisions led the way with 69%/55% YoY growth. The mobility division has an outstanding order book in excess of Rs 7bn which management believes can double in 2-4 years. The newer wearables vertical is also witnessing strong growth and guided to remain firm in FY24.

Expanding market share: Amber's value market share in its core RAC & component business rose to 20.6% in FY23 from 18% in FY22. From a manufacturing footprint point, it has improved 280bps to 29.4% vs 26.6% in FY22.

Upbeat guidance: Management aims to deliver higher growth in the core RAC business vis-à-vis the 10-15% run-rate it anticipates for the industry in FY24, along with solid growth in newer verticals. The electronics, motors and mobility divisions are guided to expand by 35-40%, 20-25% and 15-20% respectively for the year, despite a likely muted performance in Q1 amidst unseasonal rains in North India.

TP raised to Rs 2,260...: The structural shift in RAC manufacturing (outsourcing reduced to 30% vs. 41% in FY21 on PLI announcements) appears to have been offset by a prudent shift towards component manufacturing. We raise FY24/FY25 EPS estimates by ~2% each and roll valuations over to Mar'25E, valuing the stock at an unchanged 27x P/E multiple. Our TP thus rises to Rs 2,260 from Rs 2,100.

...retain HOLD: Despite a good quarter, challenges remain in the AC business due to high competition and unseasonal rains. Further, the recent run-up in stock price limits upside potential. We thus retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AMBER IN/Rs 2,172
Market cap	US\$ 890.6mn
Free float	60%
3M ADV	US\$ 2.8mn
52wk high/low	Rs 2,794/Rs 1,763
Promoter/FPI/DII	40%/24%/14%

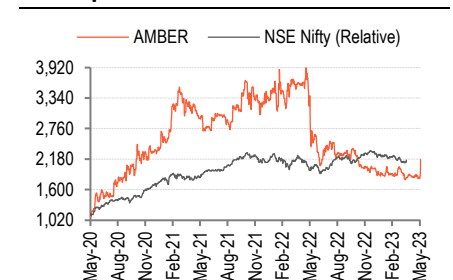
Source: NSE | Price as of 17 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	69,271	85,232	101,221
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)	46.5	36.0	25.9
EV/EBITDA (x)	17.5	14.1	11.5
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)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue	30,026	19,367	55.0	13,483	122.7	69,271	42,064	64.7
EBITDA	2,035	1,253	62.4	785	159.2	4,179	2,754	51.8
EBITDA Margin (%)	6.8	6.5	30bps	5.8	100bps	6	7	(50bps)
Depreciation	388	302	-	363	-	1,391	1,079	-
Interest	375	186	-	289	-	1,118	464	-
Other Income	187	94	-	89	-	527	332	-
PBT	1,459	859	69.9	222	556.9	2,196	1,543	42.4
Tax	378	266	-	71	-	559	429	-
Adjusted PAT	1,040	572	81.7	142	634.8	1,572	1,092	44.0
Exceptional item	-	-	-	0	-	0	0	-
Reported PAT	1,040	572	81.7	142	634.8	1,572	1,092	44.0
Adj. PAT Margin (%)	3.5	3.0	50bps	1.0	240bps	2	3	(30bps)
EPS (Rs)	32.1	17.6	82.3	4.5	617.0	49	33	47.1

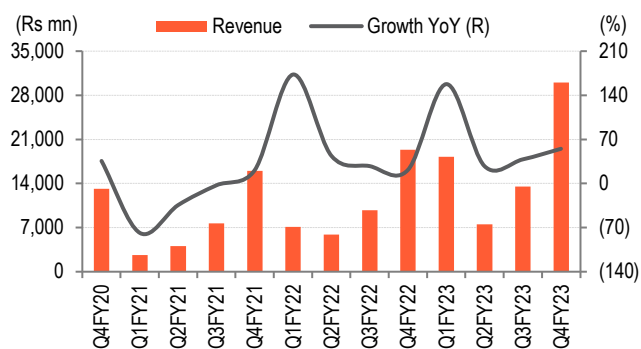
Source: Company, BOBCAPS Research

Fig 2 – Actual vs. Estimates

(Rs mn)	Actual	Estimate	Variance (%)
Revenue	30,026	20,225	48.5
EBITDA	2,035	1,425	42.8
EBITDA Margin (%)	6.8	7.0	(30bps)
Adj. PAT	1,040	761	36.6

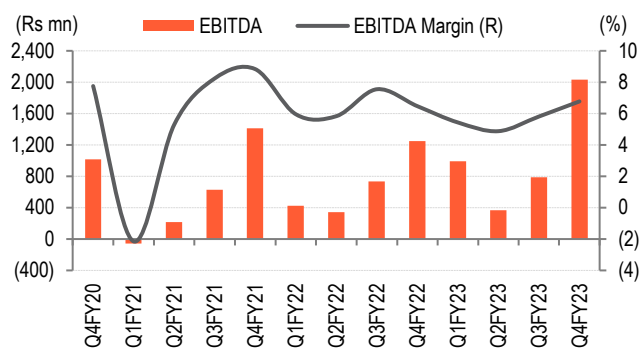
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth trend



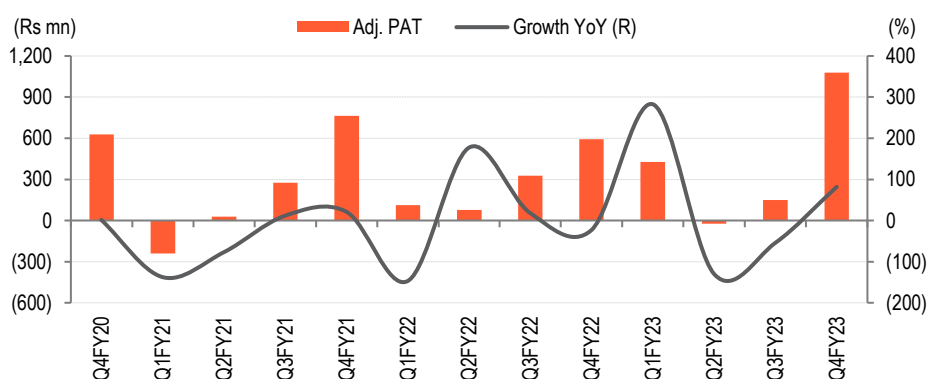
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth trend



Source: Company, BOBCAPS Research

Fig 5 – PAT growth trend



Source: Company, BOBCAPS Research

Earning call highlights

- **RAC market:** Amber estimates that India's RAC market has expanded to 8.4mn units in FY23 on the back of strong industry tailwinds. Management expects the industry to grow at 10-15% in FY24, thus reaching volumes of ~9.5mn units, and believes the company will beat industry growth. The thrust on public capex is aiding growth in HVAC solutions.
- **Guidance:** Management aims to clock a 25-30% CAGR in EBITDA and deliver ROCE of 19-21% over the next 2-3 years.
- **Segment-wise performance:** All the divisions added customers in Q4FY23. Management believes the Q4 revenue delta arose on account of new client acquisitions during the quarter.
 - The mobility business (under subsidiary Sidwal Refrigeration) has an order book in excess of Rs 7bn, with traction on account of high capex on *Vande Bharat* trains (solutions provided to pantry sections), metro trains and defense applications.
 - Per management, rising capex on AC trains could double the mobility division's order book over the next 2-3 years.
 - The company has realigned its product portfolio in the electronics division and added new customers. Wearables is witnessing strong traction. The telecom segment is also doing well and the company has crossed RAC PCBA (printed circuit board assembly) market share of 20%. It is adding customers to the BLDC motor business as well.
- **Price hikes:** No price hikes were taken during the quarter as commodity prices have stabilised.
- **Capacity utilisation:** New Sri City utilisation is currently at 20% which is expected to increase to 35%+ in the near term. Blended utilisation is at 60-65%.
- **Channel inventory:** Current channel inventory is high on account of unseasonal rains in North India, but Amber expects it to be liquidated by June-July.
- **PLI incentive status:** Amber indicated that it has crossed the requisite threshold limits on incremental capex and revenue to qualify for incentives under the government's production-linked incentive (PLI) scheme. Management expects to receive the first tranche of incentives shortly.
- **Market share in component business:** In terms of manufacturing footprint in the RAC business, Amber's market share stands at 29.4% (+300bps YoY) vs. 26.6% in FY22. It has 26-27% share in the motors vertical, 35-40% in in sheet metal where the company is the largest player in India, and ~30% in heat exchangers.
- **Exports:** Amber received approvals from some customers in Q4 which aided growth in exports. The order book is guided to remain strong in FY24.
- **ESOP expenses:** The company incurred Rs 0.3bn on employee stock options in FY23 and expects to incur a lower ~Rs 0.2bn for FY24.

- **Capex:** Amber incurred Rs 7bn toward capex in FY23 which management believes spurred profitability. Capex is likely to moderate over the next couple of years (Rs 3bn-3.75bn range). Focus areas for the outlay will be R&D and maintenance, expansion of subsidiary business, and brownfield expansion of the component business.
- **Net debt:** Amber had net debt of Rs 5.9bn in FY23 which management expects will reduce by ~Rs 2bn by FY24-end.

Valuation methodology

The structural shift in RAC manufacturing (outsourcing reduced to 30% vs. 41% in FY21 following PLI announcements) appears to have been offset by a prudent shift towards component manufacturing. We raise FY24/FY25 EPS estimates by ~2% each and roll valuations over to Mar'25E, valuing the stock at an unchanged 27x P/E multiple – 70% discount to the three-year average on a two-year forward basis. Our TP thus rises to Rs 2,260 from Rs 2,100.

Despite a good quarter, challenges remain in the AC business due to high competition and unseasonal rains. Further, the recent run-up in stock price limits upside potential. We thus retain our HOLD rating.

Fig 6 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	85,232	101,221	73,303	88,712	16.3	14.1
EBITDA	5,173	6,343	4,966	6,023	4.2	5.3
PAT	2,034	2,822	1,992	2,763	2.1	2.1
EPS (Rs)	60.4	83.8	59.1	82.0	2.1	2.1
EBITDA Margin (%)	6.1	6.3	6.8	6.8	(70bps)	(50bps)

Source: Company, BOBCAPS Research

Key risks

Key risks to our estimates are:

- **Upside risk:** Better-than-anticipated growth in newer verticals
- **Downside risk:** Disruption in RAC business amidst rising competition and policy changes

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.9	2,172	2,260	HOLD
Blue Star	BLSTR IN	1.7	1,408	1,650	BUY
Crompton Greaves	CROMPTON IN	2.0	254	440	BUY
Dixon Technologies	DIXON IN	2.1	2,961	4,100	BUY
Havells India	HAVL IN	9.7	1,269	1,500	BUY
KEI Industries	KEI IN	2.2	1,972	2,130	BUY
Orient Electric	ORIENTEL IN	0.6	222	240	HOLD
Polycab India	POLYCAB IN	6.3	3,438	3,900	BUY
Syrma SGS	SYRMA IN	0.7	321	400	BUY
V-Guard Industries	VGRD IN	1.3	254	260	HOLD
Voltas	VOLT IN	3.2	803	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 17 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	30,305	42,064	69,271	85,232	101,221
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
Reported net profit	833	1,092	1,572	2,034	2,822
Adjustments	0	0	0	0	0
Adjusted net profit	833	1,092	1,572	2,034	2,822

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
Total liab. and equities	35,866	49,125	62,433	75,838	88,282
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
Total assets	35,866	49,125	62,433	75,838	88,283

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	2,051	1,418	3,206	5,022	6,985
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
Cash flow from investing	(4,810)	(6,984)	(4,888)	(3,333)	(1,732)
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
Cash flow from financing	3,700	5,555	1,928	(1,566)	1,670
Chg in cash & cash eq.	941	(11)	246	123	6,922
Closing cash & cash eq.	2,899	5,626	5,594	5,718	12,640

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	2.4	1.7	1.1	0.9	0.7
EV/EBITDA	33.2	26.6	17.5	14.1	11.5
Adjusted P/E	87.9	67.0	46.5	36.0	25.9
P/BV	4.6	4.2	3.8	3.5	3.1

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
YoY growth (%)					
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
Profitability & Return ratios (%)					
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
Working capital days (days)					
Receivables	129	114	93	103	98
Inventory	86	73	58	65	61
Payables	159	148	121	148	148
Ratios (x)					
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%

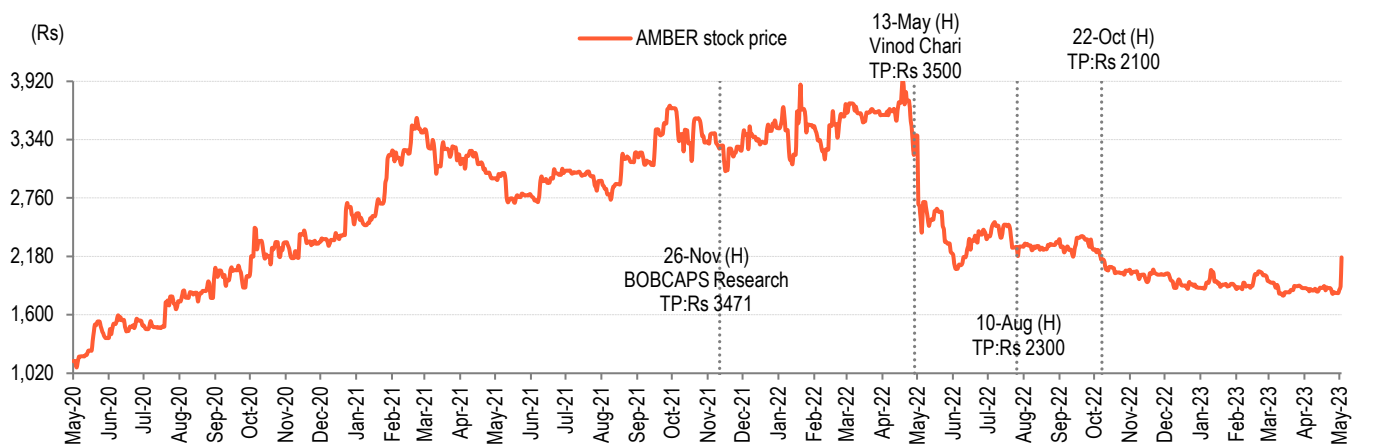
HOLD – Expected return from -6% to +15%

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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