

HOLD

TP: Rs 2,100 | ▼ 2%

AMBER ENTERPRISES

Consumer Durables

22 October 2022

Structural growth overhang persists

- Q2 topline meets estimates but bottomline disappoints with net loss of Rs 30mn owing to higher finance/forex cost
- Share of component business rising on seasonality in room AC business; however, structural threat from OEM insourcing persists
- TP revised to Rs 2,100 (vs. Rs 2,300) as we cut FY23/FY24 EPS 6%/16% and reset our target P/E to 27x (vs. 30x); retain HOLD

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Inflated finance cost drags down bottomline: Amber incurred a net loss of Rs 30mn in Q2FY23 vs. our/consensus estimates of net profit of Rs 113mn/ Rs 103mn, amidst a seasonally challenging period and higher interest expenses. Finance cost quadrupled YoY on account of capacity expansion. Additionally, the company clocked higher other expenses (9.8% of sales vs. 3Y average run-rate of 6.9%) on account of forex losses, which weighed on profitability.

Guidance maintained: Management expects industry room AC volumes to cross the 8.5mn mark in FY23 (7mn in pre-pandemic FY20) and log a 12-15% CAGR thereafter, laying a strong growth foundation for AC players. The deep under-penetration of ACs in India offers a vast opportunity, and Amber expects to exceed industry growth. Management is targeting an EBITDA and PAT CAGR of 25-30% over next few years.

Efforts to broaden seasonality via components business: Although room ACs remain the core thrust area for Amber, the revenue contribution from its component business has risen to ~30%. This helps cushion the company's overall performance against seasonality in AC sales and also garners higher margins.

Capex drive sustained amidst uncertainty: Management affirmed that the Sri City (Andhra Pradesh) greenfield expansion will come online in Q3FY23. Capex for FY23 is pegged at Rs 6bn and investments related to production-linked incentives (PLI) are on schedule, which would bring in incentives worth Rs 150mn and Rs 300mn for Amber in the next couple of years. Capacity addition by OEMs to avail of PLI benefits had raised uncertainty over Amber's growth trajectory, but the company's continued capex drive helps to partly alleviate this concern.

Maintain HOLD: Amber is attempting to fortify its position in the AC industry (market share of ~26% in room ACs & components), besides diversifying into component manufacture. Stiff competition in room ACs has been exacerbated by the insourcing plans of OEMs. We cut FY23/FY24 EPS estimates 6%/16% to factor in the Q2 upset and lower our target P/E to 27x (vs. 30x) given the structural growth overhang – this leads to a new TP of Rs 2,100 (vs. Rs 2,300) as we roll valuations over to Sep'24E.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	AMBER IN/Rs 2,150
Market cap	US\$ 875.5mn
Free float	60%
3M ADV	US\$ 2.1mn
52wk high/low	Rs 4,026/Rs 2,040
Promoter/FPI/DII	40%/36%/4%

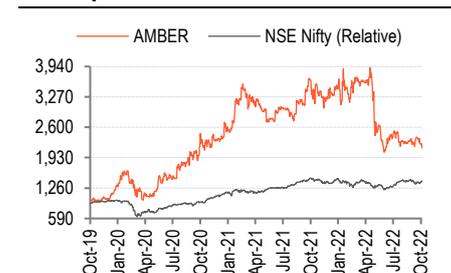
Source: NSE | Price as of 21 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	42,064	57,923	73,729
EBITDA (Rs mn)	2,754	4,043	5,239
Adj. net profit (Rs mn)	1,113	1,737	2,203
Adj. EPS (Rs)	33.0	51.6	65.4
Consensus EPS (Rs)	33.0	53.7	83.0
Adj. ROAE (%)	6.7	9.6	11.1
Adj. P/E (x)	65.1	41.7	32.9
EV/EBITDA (x)	26.3	17.9	13.8
Adj. EPS growth (%)	33.7	56.0	26.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

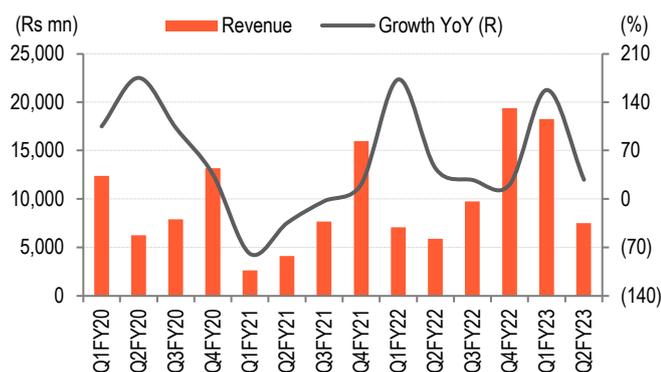


Fig 1 – Quarterly performance

Particulars (Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Revenue	7,504	5,875	27.7	18,257	(58.9)
EBITDA	367	343	6.9	992	(63.1)
EBITDA margin (%)	4.9	5.8	(100bps)	5.4	(60bps)
Depreciation	318	262	-	322	-
Interest	244	64	-	211	-
Other Income	122	81	-	128	-
PBT	(73)	98	NA	589	NA
Tax	(50)	19	-	160	-
Adjusted PAT	(23)	74	NA	429	NA
Exceptional item	-	-	-	0	-
Reported PAT	(30)	74	NA	420	NA
Adj. PAT margin (%)	(0.3)	1.3	NA	2.3	NA
EPS (Rs)	(0.7)	2.3	NA	12.7	NA

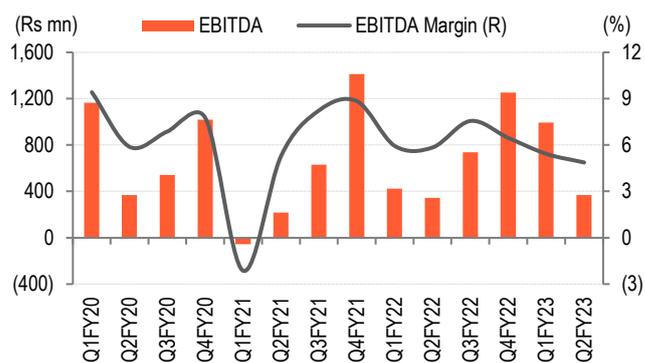
Source: Company, BOBCAPS Research

Fig 2 – Revenue growth tapered in Q2FY23



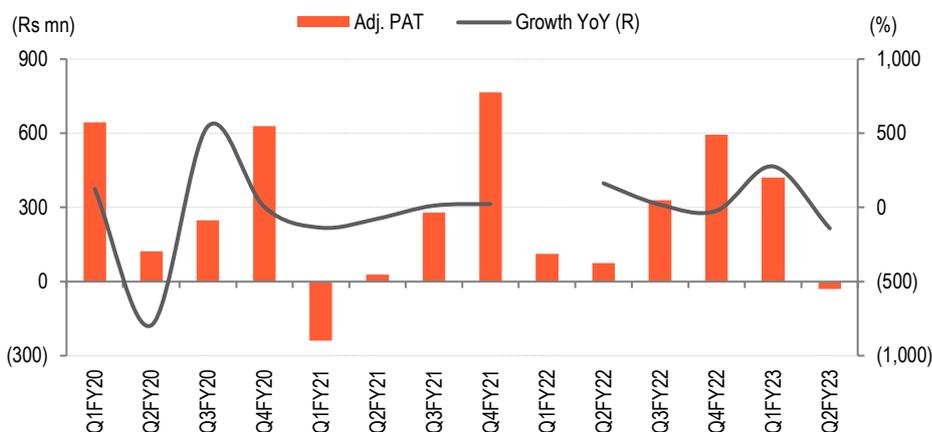
Source: Company, BOBCAPS Research

Fig 3 – EBITDA margin deteriorated



Source: Company, BOBCAPS Research

Fig 4 – Profitability turned negative



Source: Company, BOBCAPS Research

Earnings call highlights

- **Guidance:** Management expects industry room AC volumes to touch 8.5mn units in FY23 and to grow at 12-15% in FY24. Amber, thus, expects to log an EBITDA and PAT CAGR of 25-30% over the next few years, and to maintain market share at 26%.
- **Demand:** The room AC industry witnessed a dull period from Jul'22 to mid-Sep'22 due to changes in energy (BEE star) ratings effective July as well as untimely and unprecedented rainfall in August-September. Nonetheless, inventory has returned to normal and Amber expects healthy growth in Q3-Q4FY23. Other divisions such as mobility, motors, and electronics posted significant growth in Q2 as a result of the addition of new customers, products and geographies.
- **Impact of new energy efficiency norms:** Per the company, a couple of customers who changed their model lineup in January saw no impact from the new energy efficiency norms. Those who moved to change their product slate in July of this year saw a price increase of Rs 800-1,200 per model.
- **Capex:** Management has guided for capex of Rs 6bn in FY23. The greenfield facility at Sri City (with a heat exchanger sheet metal and injection molding facility, tubing components and assembly lines for 1mn ACs) is expected to become operational by Q3FY23.
- **Commodity prices:** Amber passes on increased commodity prices on a quarterly lag basis and was able to do so in Q2 as well.
- **PLI benefits:** The minimum investment threshold (key criteria) for the PLI scheme and incremental sales are on track. Amber anticipates PLI benefits worth Rs 150mn in FY24 and Rs 300mn in FY25.
- **Debt:** Net debt increased during Q2FY23 primarily due to (1) seasonality in the business which resulted in more borrowings that were paid during the off-season, and (2) capex in H1FY23.
- **Forex losses:** Other expenses were higher due to a forex loss of Rs 66mn in Q2FY23 (negligible last year) and fixed costs incurred for the new facility that began in H1FY23.
- **Exports:** The company has a confirmed order of Rs 500mn for FY23 so far (FY22: Rs 290mn), with a 70-80% jump anticipated in FY24.

RAC & Components

- Amber's components division has grown at a rapid pace, with revenue from components at Rs 5.9bn in H1FY23 vs. Rs 2.5bn in H1FY22.
- Growth was fueled by a strong order book, new customer addition and expansion in newer geographies such as Chennai and Pantnagar.

Motors

- The motors business received BLDC approvals from a few customers and a few more are in process, expected to come through in coming quarters.
- In exports, approval from export customers is underway and management expects to receive large orders in FY24.

Electronics

- Amber added Boat as a customer with healthy orders, opening up a new vertical of hearables & wearables.
- The company is expanding the manufacturing footprint of its electronics division with a new facility in South India to cater to large multinational customers.

Mobility

- The increased impetus on infrastructure development and new-age means of transport in the country is providing a large opportunity for growth.
- Apart from heating, ventilation, and air conditioning (HVAC) solutions, Amber is exploring new applications to increase its share of business.
- Order book for the segment stands at Rs 6.5bn.

Valuation methodology

The stiff competition in India's room AC industry where multiple players are already in the fray has been exacerbated by the insourcing plans of OEMs who are looking to benefit from the government's PLI scheme. Amidst the aggressive growth strategy by leading AC players and incremental capacity additions, we believe Amber continues to face a structural growth overhang and thus has limited scope for margin expansion.

We cut our FY23/FY24 EPS estimates by 6%/16% to factor in the Q2FY23 upset and lower our target P/E to 27x (vs. 30x) given the growth overhang – this leads to a revised TP of Rs 2,100 (vs. Rs 2,300) as we roll valuations over to Sep'24E. Our target multiple is at a 18% discount to the stock's 4-year average. Maintain HOLD.

Fig 5 – Revised estimates

Particulars (Rs mn)	New			Old		Change (%)	
	FY23E	FY24E	FY25E	FY23E	FY24E	FY23E	FY24E
Sales	57,923	73,729	87,481	57,971	73,795	(0.1)	(0.1)
EBITDA	4,043	5,239	6,186	4,193	5,647	(3.6)	(7.2)
PAT	1,737	2,203	2,947	1,849	2,634	(6.0)	(16.4)
EPS (Rs)	51.6	65.4	87.5	54.9	78.2	(6.0)	(16.4)
EBITDA margin (%)	7.0	7.1	7.1	7.2	7.7	(30bps)	(50bps)

Source: Company, Bloomberg

Key risks

Key risks to our estimates are:

- **Upside risks:** Significant outperformance vis-à-vis industry growth and incremental market share gains
- **Downside risks:** Inability by OEMs to commission incremental capacity

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.9	2,150	2,100	HOLD
Blue Star	BLSTR IN	1.4	1,212	1,100	HOLD
Crompton Greaves	CROMPTON IN	2.9	374	500	BUY
Dixon Technologies	DIXON IN	3.1	4,275	5,200	BUY
Havells India	HAVL IN	8.8	1,166	1,500	BUY
Orient Electric	ORIENTEL IN	0.7	269	310	HOLD
Polycab India	POLYCAB IN	4.9	2,698	3,300	BUY
V-Guard Industries	VGRD IN	1.3	253	250	HOLD
Voltas	VOLT IN	3.5	866	1,100	HOLD

Source: BOBCAPS Research, NSE | Price as of 21 Oct 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	30,305	42,064	57,923	73,729	87,481
EBITDA	2,203	2,754	4,043	5,239	6,186
Depreciation	923	1,079	1,481	1,997	1,922
EBIT	1,280	1,675	2,562	3,243	4,264
Net interest inc./(exp.)	(410)	(464)	(607)	(738)	(852)
Other inc./(exp.)	331	332	366	439	526
Exceptional items	0	0	0	0	0
EBT	1,201	1,543	2,321	2,943	3,938
Income taxes	369	429	584	741	991
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	833	1,113	1,737	2,203	2,947
Adjustments	0	0	0	0	0
Adjusted net profit	833	1,113	1,737	2,203	2,947

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	13,169	17,021	23,487	29,896	35,472
Other current liabilities	1,402	2,263	3,116	3,967	4,707
Provisions	0	0	0	0	0
Debt funds	3,843	10,318	12,132	14,761	17,048
Other liabilities	1,410	2,180	2,856	3,530	4,117
Equity capital	337	337	337	337	337
Reserves & surplus	15,704	17,005	18,473	20,389	23,049
Shareholders' fund	16,041	17,342	18,810	20,726	23,386
Total liab. and equities	35,866	49,125	60,402	72,879	84,729
Cash and cash eq.	2,899	5,626	3,753	6,120	9,170
Accounts receivables	10,690	13,149	18,091	23,038	27,329
Inventories	7,163	8,408	11,585	14,742	17,494
Other current assets	1,207	2,497	3,438	4,377	5,193
Investments	0	0	0	0	0
Net fixed assets	7,864	10,791	13,310	12,814	12,392
CWIP	288	1,056	1,454	1,851	2,196
Intangible assets	3,721	4,487	4,487	4,487	4,487
Deferred tax assets, net	0	0	0	0	0
Other assets	2,033	3,110	4,283	5,452	6,469
Total assets	35,866	49,125	60,402	72,879	84,729

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	2,051	1,418	1,477	2,416	3,325
Capital expenditures	(1,845)	(4,137)	(4,000)	(1,500)	(1,500)
Change in investments	(1,433)	(1,482)	0	0	0
Other investing cash flows	(1,531)	(1,365)	(895)	(891)	(776)
Cash flow from investing	(4,810)	(6,984)	(4,895)	(2,391)	(2,276)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	4,097	6,031	1,814	2,628	2,287
Interest expenses	0	0	0	0	0
Dividends paid	(397)	(476)	(270)	(286)	(286)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	3,700	5,555	1,545	2,342	2,000
Chg in cash & cash eq.	941	(11)	(1,873)	2,367	3,050
Closing cash & cash eq.	2,899	5,626	3,753	6,120	9,170

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	24.7	33.0	51.6	65.4	87.5
Adjusted EPS	24.7	33.0	51.6	65.4	87.5
Dividend per share	0.0	0.0	8.0	8.5	8.5
Book value per share	476.1	514.7	558.3	615.1	694.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	2.4	1.7	1.3	1.0	0.8
EV/EBITDA	32.9	26.3	17.9	13.8	11.7
Adjusted P/E	87.0	65.1	41.7	32.9	24.6
P/BV	4.5	4.2	3.9	3.5	3.1

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	69.3	72.2	74.8	74.8	74.8
Interest burden (PBT/EBIT)	93.9	92.1	90.6	90.8	92.4
EBIT margin (EBIT/Revenue)	4.2	4.0	4.4	4.4	4.9
Asset turnover (Rev./Avg TA)	3.9	3.9	4.4	5.8	7.1
Leverage (Avg TA/Avg Equity)	0.6	0.6	0.7	0.6	0.6
Adjusted ROAE	6.1	6.7	9.6	11.1	13.4

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(23.5)	38.8	37.7	27.3	18.7
EBITDA	(28.8)	25.0	46.8	29.6	18.1
Adjusted EPS	(49.3)	33.7	56.0	26.8	33.8
Profitability & Return ratios (%)					
EBITDA margin	7.3	6.5	7.0	7.1	7.1
EBIT margin	4.2	4.0	4.4	4.4	4.9
Adjusted profit margin	2.7	2.6	3.0	3.0	3.4
Adjusted ROAE	6.1	6.7	9.6	11.1	13.4
ROCE	6.4	6.0	7.4	8.2	9.3
Working capital days (days)					
Receivables	129	114	114	114	114
Inventory	86	73	73	73	73
Payables	159	148	148	148	148
Ratios (x)					
Gross asset turnover	2.8	3.2	3.4	3.8	4.2
Current ratio	1.3	1.1	1.0	1.0	1.1
Net interest coverage ratio	3.1	3.6	4.2	4.4	5.0
Adjusted debt/equity	0.2	0.6	0.6	0.7	0.7

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

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

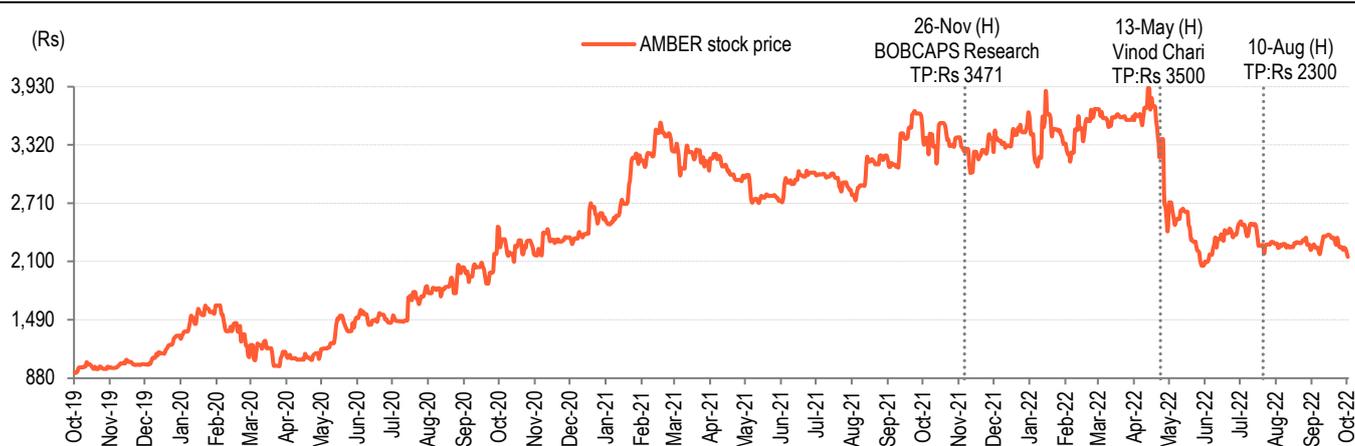
HOLD – Expected return from -6% to +15%

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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