

HOLD

TP: Rs 3,500 | ▲ 4%

AMBER ENTERPRISES

Consumer Durables

13 May 2022

Components business remains in focus

- Q4 topline strong but higher RM and operating costs dent margins and bottomline
- Diversification into non-AC segment, rising focus on components and new customer acquisition to underpin future growth
- PLI scheme a key positive driver while higher RM costs and hence ASPs pose a threat to demand recovery; HOLD, TP Rs 3,500

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Higher costs dent bottomline: Amber's Q4FY22 revenue increased 21% YoY to Rs 19.4bn on the back of strong volumes and higher price realisations. Gross margin declined 210bps YoY to 13.8% as the company was not able to completely pass on the rising raw material prices. EBIT margin contracted 250bps YoY to 4.9% as higher operating leverage was negated by lower gross margins as well as increased depreciation, staff cost and other expenses. Adj. net income fell 24% YoY to Rs 572mn.

Diversification into non-AC segment to underpin growth: Amber is the largest third-party ODM (original design manufacturer) for room ACs (RAC). Through strategic acquisitions, the company has not only strengthened its backward integration in RACs but also expanded its horizon in newer markets such as mobility applications, printed circuit boards (PCB) for refrigerators and washing machines, as well as wearables and hearables for BoAT. In FY15-FY16, non-RAC contribution was negligible, but recent acquisitions have taken revenue share from this business to 25% in FY22.

Focus on components: Amber has been making constant efforts to raise the mix of AC components in total sales and these now contribute 50% vs. 25% in FY15. As the component proportion rises, the company has shifted its focus toward gaining value rather than volumes. It currently holds 26.5% market share in components by value and aims to improve its share by a further 100bps in FY23.

Rising RM cost a key risk for contractors...: This year's intense summer season augurs well for the AC industry as a whole and all OEM players are expected to make the most of it after two washout summers due to Covid. Further, the government's PLI schemes are expected to bring about a structural change in the industry. Even so, rising RM cost can dampen the demand recovery, leading to a softening of the order book for third-party contract manufacturers such as Amber.

...HOLD, TP Rs 3,500: We value Amber at 40x FY24E EPS, a 21% premium over its 4Y average, and assume coverage with HOLD. Key positive drivers include potential PLI incentives and export opportunities. Downside risks include RM inflation hurting AC sales recovery and more OEMs setting up own manufacturing units in India.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AMBER IN/Rs 3,379
Market cap	US\$ 1.5bn
Free float	60%
3M ADV	US\$ 3.5mn
52wk high/low	Rs 4,026/Rs 2,684
Promoter/FPI/DII	40%/28%/9%

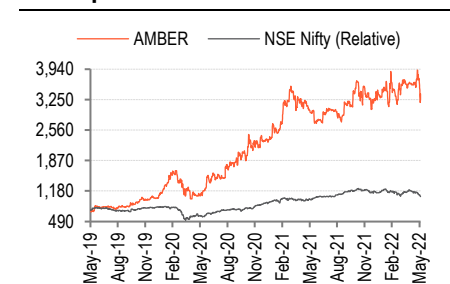
Source: NSE | Price as of 13 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	42,064	58,361	74,154
EBITDA (Rs mn)	2,734	4,372	5,827
Adj. net profit (Rs mn)	984	1,893	2,867
Adj. EPS (Rs)	30.1	57.9	87.7
Consensus EPS (Rs)	30.1	78.0	105.8
Adj. ROAE (%)	5.8	10.4	13.9
Adj. P/E (x)	112.3	58.4	38.5
EV/EBITDA (x)	42.2	26.7	20.6
Adj. EPS growth (%)	39.0	92.5	51.4

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

Stock performance



Source: NSE



Fig 1 – Quarterly and annual performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenue (post indirect taxes)	19,367	15,984	21.2	9,743	98.8	42,064	30,305	38.8
Cost of Revenue	(16,699)	(13,449)	24.2	(7,962)	109.7	(35,297)	(25,135)	40.4
Gross Profit	2,668	2,535	5.2	1,781	49.9	6,767	5,170	30.9
Gross Margin (%)	13.8	15.9	(208bps)	18.3	(450bps)	16.1	17.1	(97bps)
Employee Benefits Expense	(427)	(297)	43.7	(397)	7.8	(1,500)	(1,021)	46.9
Other Expense	(988)	(826)	19.6	(648)	52.5	(2,514)	(1,947)	29.1
Other Income	0	0	-	0	-	0	0	-
EBITDA	1,253	1,412	(11.3)	736	70.2	2,754	2,203	25.0
EBITDA margin (%)	6.5	8.8	(236bps)	7.6	(108.7bps)	6.5	7.3	(72bps)
Depreciation & Amortization	(302)	(227)	33.0	(271)	11.6	(1,079)	(923)	16.9
EBIT	951	1,184	(19.7)	465	104.2	1,675	1,280	30.9
EBIT margin (%)	4.9	7.4	(250bps)	4.8	13bps	4.0	4.2	(24bps)
Interest Income	94	85	10.8	86	8.8	332	331	0.4
Interest Expense	(186)	(105)	77.5	(123)	50.7	(464)	(410)	13.4
Dividend	0	0	-	0	-	0	0	-
Other Financial Items	0	0	-	0	-	0	0	-
Forex	0	0	-	0	-	0	0	-
Total Financials	(92)	(20)	360.1	(37)	148.0	(132)	(79)	68.0
Income after financial items	859	1,164	(26.3)	428	100.4	1,543	1,201	28.4
Margin (%)	4.4	7.3	(285bps)	4.4	4bps	3.7	4.0	(30bps)
Associate Income	0	0	-	0	-	0	0	-
Pretax income	859	1,164	(26.3)	428	100.4	1,543	1,201	28.4
Total Non-Recurring	0	0	-	0	-	0	0	-
Reported Pretax	859	1,164	(26.3)	428	100.4	1,543	1,201	28.4
Taxation	0	0	-	0	-	0	0	-
Total	(266)	(400)	(33.6)	(99)	168.3	(429)	(369)	16.5
% of pretax income before Associates	31	34	(9.9)	23	0.0	103	672	0.0
Net income before minorities	593	765	(22.5)	329	80.0	1,113	833	33.7
Minorities	(21)	(10)	104.5	(8)	154.3	(21)	(17)	26.3
Net income after minorities	572	755	(24.2)	321	78.1	1,092	816	33.8
Tax on non-core	0	0	-	0	-	0	0	-
Core net income	572	755	(24.2)	321	78.1	1,092	816	33.8
Net margin (%)	3.0	4.7	(177bps)	3.3	(34bps)	2.6	2.7	(10bps)

Source: Company, BOBCAPS Research

Valuation methodology

Amber has traditionally been a one-dimensional company, focussed on being a third-party contract manufacturer for RACs and on providing components for the industry. Though the company has entered into various other segments and expanded its horizon with recent investments, it continues to derive a bulk of its revenue from a single industry.

Given the recent geopolitical issues and rising interest rates, we believe that diversification into multiple product categories is imperative for success – we, therefore, prefer Dixon over Amber. We value Amber at 40x FY24E EPS, a 21% premium over its four-year average, and assume coverage with a HOLD rating and a TP of Rs 3,500.

Fig 2 – Estimates Vs. Consensus

(Rs mn)	BOBCAPS		Bloomberg		Variance (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	58.4	74.2	59.0	73.4	(1.1)	1.0
EBITDA	4.4	5.8	4.9	6.2	(10.1)	(6.4)
EBIT	3.0	4.4	3.9	5.1	(21.6)	(13.3)
Pretax Income	2.4	3.6	3.5	4.8	(31.1)	(23.7)
Net Income	1.9	2.9	2.6	3.5	(26.1)	(18.1)
EPS (Rs)	57.9	87.7	78.0	105.8	(25.7)	(17.1)

Source: Bloomberg, BOBCAPS Research

Key risks

Downside risks to our estimates:

- Raw material inflation leading to a product price hike
- Another wave of Covid-19
- More OEMs deciding to set up manufacturing units should the market become larger (currently at 7mn domestic units with very limited imports)
- Decline in the proportion of window ACs which can result in lower ASP for the company

Upside risks

- Above-expected growth due to a faster recovery in construction or a demand surge should prices fall
- New OEMs into the Indian market may want to outsource rather than manufacture in-house

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.5	3,379	3,500	HOLD
Blue Star	BLSTR IN	1.2	990	1,200	HOLD
Crompton Greaves	CROMPTON IN	2.9	353	621	BUY
Dixon Technologies	DIXON IN	2.6	3,371	5,431	HOLD
Havells India	HAVL IN	10.0	1,235	1,500	BUY
Orient Electric	ORIENTEL IN	0.8	300	350	HOLD
Polycab India	POLYCAB IN	4.9	2,541	3,000	BUY
V-Guard Industries	VGRD IN	1.1	205	321	BUY
Voltas	VOLT IN	4.0	931	1,250	BUY
Whirlpool India	WHIRL IN	2.5	1,555	2,901	BUY

Source: BOBCAPS Research, NSE | Price as of 13 May 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	39,628	30,305	42,064	58,361	74,154
EBITDA	3,093	2,203	2,734	4,372	5,827
Depreciation	(848)	(923)	(1,059)	(1,333)	(1,392)
EBIT	2,245	1,280	1,675	3,039	4,435
Net interest inc./(exp.)	(405)	(289)	(344)	(725)	(905)
Other inc./(exp.)	67	211	212	104	104
Exceptional items	0	0	0	0	0
EBT	1,907	1,201	1,543	2,417	3,634
Income taxes	(266)	(369)	(429)	(484)	(727)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(57)	(17)	(21)	(40)	(40)
Reported net profit	1,584	816	1,092	1,893	2,867
Adjustments	0	(108)	(108)	0	0
Adjusted net profit	1,584	708	984	1,893	2,867

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	11,068	13,169	17,021	20,786	20,316
Other current liabilities	11,176	13,192	17,056	20,822	20,352
Provisions	108	119	151	151	151
Debt funds	3,359	3,639	10,686	9,021	10,397
Other liabilities	1,759	1,291	1,876	1,916	1,956
Equity capital	314	337	337	337	337
Reserves & surplus	10,970	15,704	17,005	18,899	21,765
Shareholders' fund	11,284	16,406	17,342	19,236	22,102
Total liab. and equities	29,028	35,866	49,125	53,158	56,972
Cash and cash eq.	1,203	2,899	5,626	1,796	3,708
Accounts receivables	8,542	10,690	13,149	15,989	16,253
Inventories	6,557	7,163	8,408	11,192	12,190
Other current assets	1,030	1,207	2,502	2,502	2,502
Investments	0	551	1,056	1,056	1,056
Net fixed assets	7,475	7,864	10,791	12,207	13,146
CWIP	0	0	0	0	0
Intangible assets	2,447	2,499	2,804	2,804	2,804
Deferred tax assets, net	19	20	28	28	28
Other assets	1,756	2,972	4,760	5,584	5,285
Total assets	29,028	35,866	49,125	53,158	56,972

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	3,370	2,289	3,034	2,029	3,369
Capital expenditures	(1,449)	(1,845)	(4,137)	(2,451)	(2,033)
Change in investments	0	0	0	0	0
Other investing cash flows	(1,831)	(3,068)	(2,869)	0	0
Cash flow from investing	(3,280)	(4,913)	(7,006)	(2,451)	(2,033)
Equities issued/Others	0	4,000	0	0	0
Debt raised/repaid	0	0	0	(1,665)	1,377
Interest expenses	0	0	0	(902)	(891)
Dividends paid	0	0	0	0	0
Other financing cash flows	634	(4,300)	5,555	2,567	(486)
Cash flow from financing	634	(300)	5,555	0	0
Chg in cash & cash eq.	738	1,179	1,605	(2,708)	1,911
Closing cash & cash eq.	1,203	2,899	4,504	1,796	3,708

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	50.4	25.0	33.4	57.9	87.7
Adjusted EPS	50.4	21.6	30.1	57.9	87.7
Dividend per share	3.2	0.0	0.0	0.0	0.0
Book value per share	358.8	486.9	514.7	570.8	655.9

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	2.9	3.8	2.7	2.0	1.6
EV/EBITDA	37.1	52.6	42.2	26.7	20.6
Adjusted P/E	67.1	156.1	112.3	58.4	38.5
P/BV	9.4	6.9	6.6	5.9	5.2

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	83.0	58.9	63.8	78.3	78.9
Interest burden (PBT/EBIT)	85.0	93.9	92.1	79.6	81.9
EBIT margin (EBIT/Revenue)	5.7	4.2	4.0	5.2	6.0
Asset turnover (Rev./Avg TA)	150.2	93.4	99.0	114.1	134.7
Leverage (Avg TA/Avg Equity)	2.5	2.3	2.5	2.8	2.7
Adjusted ROAE	15.0	5.1	5.8	10.4	13.9

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	44.0	(23.5)	38.8	38.7	27.1
EBITDA	45.3	(28.8)	24.1	59.9	33.3
Adjusted EPS	77.3	(57.0)	39.0	92.5	51.4
Profitability & Return ratios (%)					
EBITDA margin	7.8	7.3	6.5	7.5	7.9
EBIT margin	5.7	4.2	4.0	5.2	6.0
Adjusted profit margin	4.0	2.3	2.3	3.2	3.9
Adjusted ROAE	15.0	5.1	5.8	10.4	13.9
ROCE	16.7	7.6	8.0	12.9	17.1
Working capital days (days)					
Receivables	79	129	114	100	80
Inventory	60	86	73	70	60
Payables	102	159	148	130	100
Ratios (x)					
Gross asset turnover	4.2	2.8	3.2	3.5	3.9
Current ratio	1.2	1.3	1.1	1.1	1.2
Net interest coverage ratio	5.5	4.4	4.9	4.2	4.9
Adjusted debt/equity	0.3	0.2	0.6	0.5	0.5

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

Disclaimer

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

BUY – Expected return >+15%

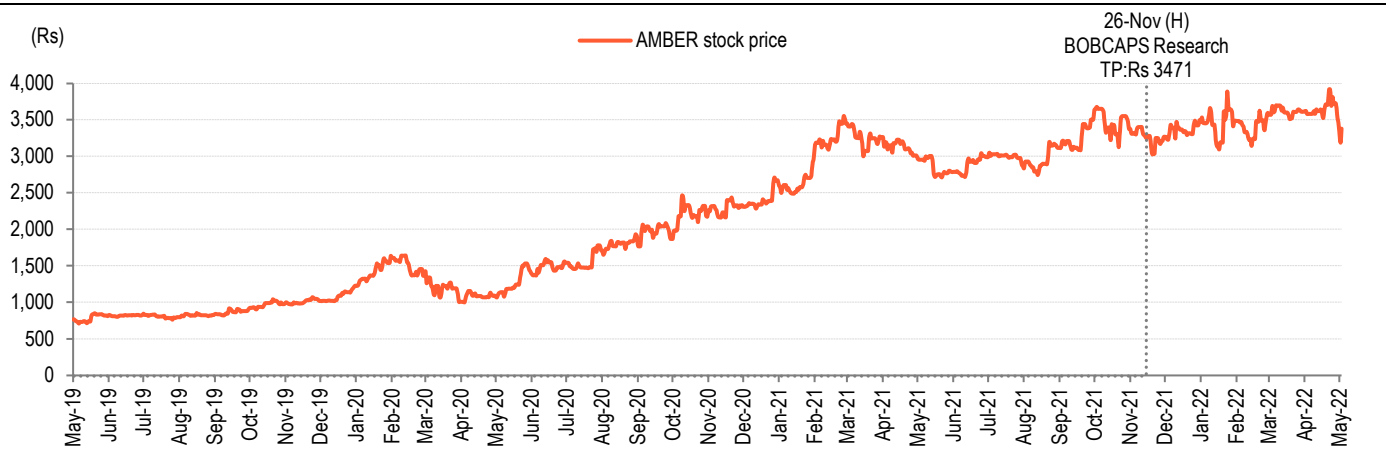
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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