

## CONSUMER DURABLES

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### Strategic shift to drive growth

- **Government incentives and industry reforms are paving the way for significant growth in the Electronics Manufacturing Services sector**
- **Original design manufacturers are boosting room air conditioner components production even as insourcing trends rise steadily**
- **AMBER is better positioned than smaller players to capture a larger market share and sustain long-term growth**

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Post our interaction with Epack Durable (Not Rated) we did a comparative analysis between Amber Enterprises and Epack Durable. Our key findings are as follows:

**EMS is poised for rapid growth with new policies:** We believe the EMS segment is set for substantial long-term expansion. With supportive government policies, the domestic EMS market will grow from Rs 1.46tn in FY22 to Rs 4.5tn in FY26 with growth CAGR of 32.3% (Frost & Sullivan). We expect this growth to benefit key players like DIXON, AMBER, EPACK, etc. In our view, these companies have reached significant scale and market dominance and are now positioned to advance into components manufacturing to enhance localisation and value addition within India. Further initiatives will be needed to encourage domestic component production, in which GOI has implemented various schemes.

**PLI boost...:** The Production-Linked Incentive scheme and favourable industry trends are driving significant growth in the domestic RAC market, and as per EPACK it is expected to grow at a CAGR of 13% from FY24-FY28, reaching 17.7mn units by FY28. Currently, AC penetration in India is ~9%, compared to 90% in Japan and US each and 80% in China. In response to rising demand, several OEM and ODM players are investing heavily in capex under the PLI scheme, which has increased domestic value addition from 20% to 40% and we believe this will increase further.

**... AMBER leads investment:** Despite rising insourcing trends, ODM players are ramping up production of RAC components. AMBER and EPACK are key RAC ODM players in this segment. AMBER has committed Rs 6.2bn to the PLI scheme (the highest among ODM/OEM players) and invested Rs 14.9bn in capex from FY22-24. EPACK has committed Rs 3.6bn under the PLI scheme and invested Rs 5.8bn in total capex from FY22-24 (Fig 4).

**RAC ODM market share:** AMBER stands out as a leading player in the RAC ODM market, with a 27% market share in FY24. EPACK had a 24% market share in FY24. AMBER's focus on expanding its component business has allowed it to retain its market share despite a drop in outsourcing from AC OEM players.



**Backward integration:** AMBER is prioritising backward integration, being the only player in the industry that supplies 70% of the bill of materials for both room air conditioners (RAC) and non-RAC components through its subsidiaries ILJIN and EVER. EPACK has also achieved significant backward integration, growing its capabilities organically in India.

**Strategies going ahead:** AMBER has significantly reduced its reliance on RACs, its contribution dropping from 72% of the topline in FY18 to 40% in FY24. AMBER is now diversifying into the high-growth electronics segment by shifting from a cyclical low-margin business to a steady high-margin one. The company is transitioning from printed circuit board (PCB) assembly to manufacturing bare board PCBs through its acquisition of Ascent Circuits. Also, AMBER has signed an MoU with Korea Circuits, via Ascent Circuits, to produce Flex, high-density interconnect, and semiconductor substrate PCBs, enhancing PCB manufacturing capabilities in India. In contrast, EPACK still derives 86% of its revenue from RAC and 15% from small domestic appliances for FY24. Further EPACK aims to reduce the contribution of RACs to below 70% while increasing revenue from the small domestic appliances and large domestic appliances segments in upcoming years.

**Intense competition in RACs drives expansion and focus on components:** The RAC industry is currently experiencing tough competition due to rapid capacity expansion. The Indian RAC market is highly organised, featuring a mix of global and local brands including Voltas, Havells, Daikin, LG, Hitachi and BlueStar, together representing ~70% of sales in FY23. Many other equipment manufacturers (OEMs) are also applying for PLI schemes to boost their inhouse capacities. Given the increased capex and insourcing by AC OEMs, overall revenue growth in the RAC segment may be constrained. However, we believe companies like AMBER are thriving by expanding their component offerings, which will likely help them capture a larger market share and sustain revenue growth despite slower realisations.

## Company background

### Amber Enterprises

- AMBER, a prominent player in ODM/OEM solutions for India's RAC industry, is poised for growth due to its early adoption of the PLI scheme and enhancing its capital expenditure in RAC and AC components.
- Considering the company's strategic expansion into the fast-expanding electronics market, notably PCB manufacturing, and its increasing engagement in the mobility sector we expect the company to bolster its profit margins.
- AMBER's joint venture with Titagarh Rail Systems aims to deliver integrated solutions for railway subsystems domestically and internationally. This alliance is set to propel Sidwal into the European market and secure preferred access to Firema's demand. Domestically, the JV will enhance AMBER's technical capabilities, expanding its market in the rapidly growing railway segment in India, including Vande Bharat and metro trains.
- Sidwal's addressable market now covers Rs 11mn per passenger car, with an order book of Rs 20.8bn.

- AMBER’s recent capital investments in RAC components under the PLI scheme across five plants, along with projected capex of Rs 4bn in FY25 and Rs 3.5bn over the subsequent two years for Sidwal and its electronics division, will be allocated 60:40 between the railways and electronics divisions.

### Epacak Durable

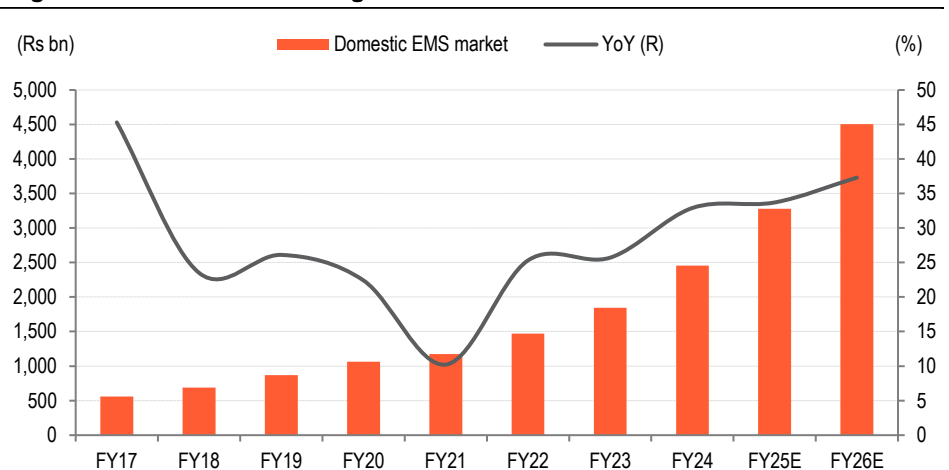
- Epacak Durable, the second-largest original design manufacturer (ODM) of room air conditioners in India by unit volume for FY24, boasts a diverse product lineup that includes room air conditioners, small domestic appliances, and various components.
- The company has achieved significant backward integration, producing key RAC components such as sheet metal, injection-molded parts, cross-flow fans, and Printed Circuit Board Assembly components at its facilities.
- EPACK operates vertically integrated manufacturing plants in Dehradun, Bhiwadi, and Sri City, with the Sri City manufacturing unit being EPACK’s latest addition as the plant started operations from Q3 of FY23-24.
- Serving four of the top six RAC brands in India, EPACK maintains long-term relationships with Indian and international clients, with an average customer relationship span of 8.7 years for RAC clients and 6.3 years for small domestic appliance customers.
- Established in 2019, EPACK has expanded rapidly, achieving a revenue CAGR of 24% between FY22 and FY24, and reported margins of 8.19% for EBITDA and 2.95% for PAT in FY24. With ROCE of 7.95% and ROE of 5.87% for FY24, the company’s revenue is increasingly derived from its top five customers.

Fig 1 – Financial comparison

Companies	Revenue (Rs mn)				EBITDAM (%)			PAT (Rs mn)			
	FY22	FY23	FY24	CAGR (%)	FY22	FY23	FY24	FY22	FY23	FY24	CAGR (%)
Amber Enterprises	42,064	69,271	67,293	26	6.5	6	7.3	1,092	1,572	13,29	10
Epacak Durable	9,242	15,388	14,196	24	7.44	6.67	8.19	174	320	354	43

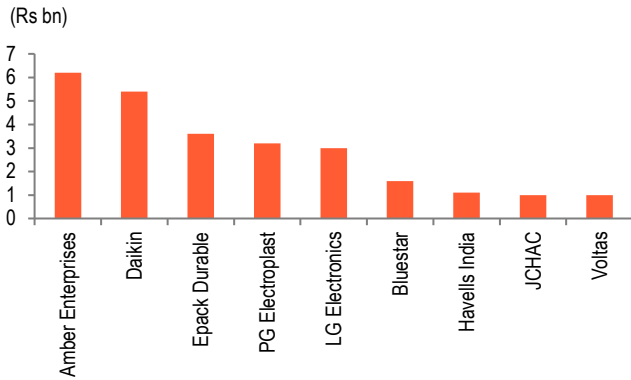
Source: Companies, BOBCAPS Research

Fig 2 – Domestic EMS market growth



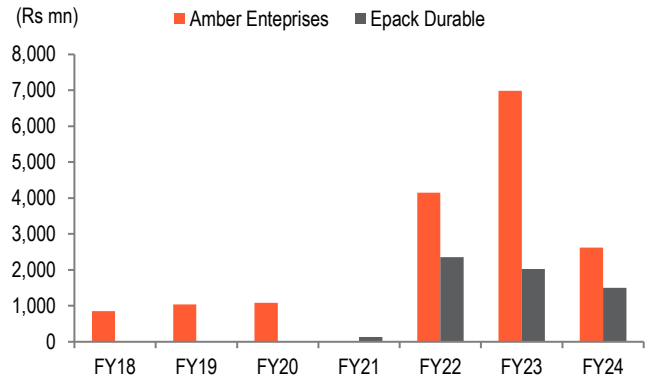
Source: Frost & Sullivan , BOBCAPS Research

**Fig 3 – PLI investments committed**



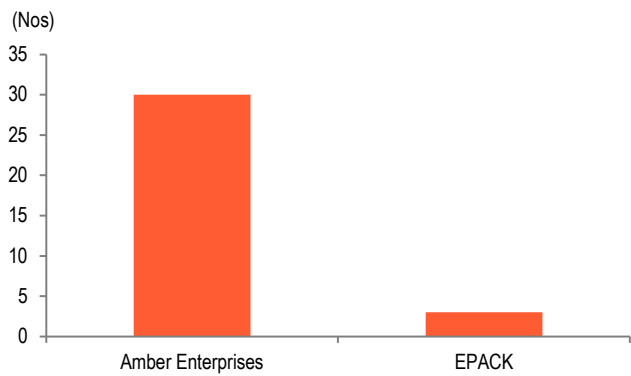
Source: Companies, BOBCAPS Research

**Fig 4 – Capex incurred by AMBER and EPACK**



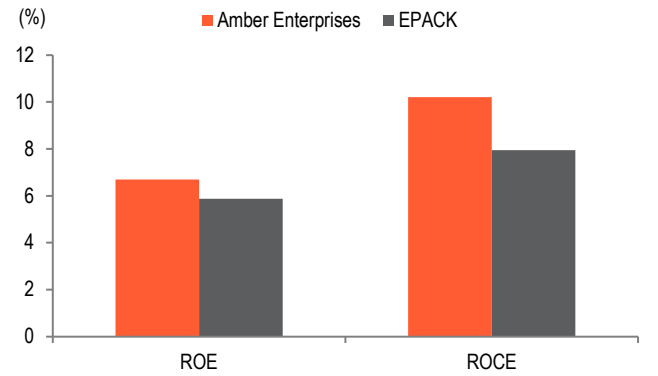
Source: Companies, BOBCAPS Research

**Fig 5 – Manufacturing units (AMBER and EPACK) in FY24**



Source: Companies, BOBCAPS Research

**Fig 6 – Return ratios (AMBER vs EPACK) for FY24**



Source: Companies, BOBCAPS Research

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