

## Lower offtake in peak periods hits earnings...

Amber Enterprises' Q4FY20 revenue growth at 10% was largely driven by component and mobile business, which were up ~24% YoY in Q4FY20 led by low base and consolidation of Sidwal business. However, the core business i.e. 'RAC' segment (contributes ~60% in topline) recorded muted growth of ~3% YoY in Q4FY20 led by lower volume offtake by key customers in the wake of lockdown imposed from the last week of March 2020. According to estimate given by management, the company lost sales worth ₹ 160-180 crore due lockdown in March. On the margin front, gross margin improvement of ~60 bps YoY was supported by improved product mix of subsidiaries and launch of various new models during FY20. However EBITDA margin in Q4FY20 (down 170 bps YoY) was largely hit by one-time forex loss (of ₹ 16 crore) and higher employee cost. If the current trend of secondary sales continues (sharp rise in demand of RACs in the last 10 days of May 2020), the management expects possible inventory liquidation at dealer level by June 2020. However we believe a demand recovery would largely start from Q4FY20 supported by volume offtake by key clients. On profitability front, improvement in EBITDA margin of subsidiaries (~40% of sales) is encouraging. This, coupled with sales volume recovery from FY22E onwards would help drive EBITDA margins, going forward. We introduce FY22E estimates with revenue, EBITDA growth of ~41%, ~77% YoY and roll over our valuation on FY22E.

## Strong volume off take in FY20

Amber reported strong RAC volume growth of ~43% YoY in FY20 led by customer addition, increase in wallet share from existing clients. Alongside, component, mobile business also posted strong 51% YoY growth supported by consolidation of Sidwal in FY20. While the company is confident of achieving scale (due to its market leadership position, changing strategy of customers to increase local sourcing) post Covid-19, we believe the company would report strong volume recovery from FY22E onwards.

## Increasing profitability of subsidiary good sign

Subsidiaries posted strong revenue growth of 51% YoY in FY20 led by consolidation of Sidwal and strong performance of PICTL, EVER where revenue grew ~29%, ~117% YoY in FY20, respectively. Further, while revenue of ILJIN was flat (in FY18-20), the EBITDA margin increased 260 bps during the same period. We believe rising trend of local sourcing by key clients would help drive revenue, earnings of Amber, going forward.

## Valuation & Outlook

We believe Amber Enterprises is a strong play in the OEM, ODM segments with shift in China+1 strategy by key clients post Covid-19. However, recent stock rally captures most positive developments. Hence, we reiterate our **HOLD** rating on the stock with a revised target price of ~₹ 1565/share.



### Particulars

Particular	Amount
Market Cap (₹Crore)	4,660.4
Total Debt (FY 20) (₹Crore)	320.5
Cash & Inv (FY 20) (₹Crore)	120.3
EV (₹Crore)	4,860.6
52 week H/L	1690/ 750
Equity capital (₹Crore)	31.4
Face value (₹)	10.0

### Key Highlights

- Strong RAC volume growth of ~43% YoY in FY20, crossed 3.2 million mark
- Focus on profitability drives performance of subsidiaries
- Gross margin expanded 60 bps YoY Q4FY20 and ~80bps YoY in FY20 led by favourable mix
- Maintain HOLD rating on stock with revised target price of ₹ 1565/share

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### Key Financial Summary

₹Crore	FY18	FY19	FY20E	FY21E	FY22E	(CAGR 20-22E)
Net sales	2128.1	2752.0	3962.8	3295.5	4629.1	8.1
EBITDA	183.5	212.9	309.3	227.4	402.7	14.1
EBITDA Margin(%)	8.6	7.7	7.8	6.9	8.7	
Net Profit	62.3	94.8	164.1	47.5	172.8	2.6
EPS (₹)	19.8	30.1	52.2	15.1	54.9	
P/E(x)	74.8	49.2	28.4	98.1	27.0	
RoE (%)	7.0	9.6	14.5	4.4	13.7	
RoCE (%)	13.5	12.3	14.3	7.3	15.7	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	1315.2	1196.0	10.0	788.4	66.8	Sharp growth in component business helped drive topline
Other Income	0.0	5.4	-100.4	2.2	-101	
Raw Material Exp	1096.3	1004.4	9.2	654.0	67.6	Change in revenue mix helped driving gross margin up by ~60 bps YoY in Q4FY20
Employee cost	30.6	17.1	78.4	27.1	13.0	
Other Expenditure	86.4	61.4	40.8	53.1	62.7	
Total Expenditure	1213.3	1082.9	12.0	734.2	65.3	
EBITDA	101.9	113.1	33.8	54.3	87.7	
EBITDA Margin (%)	7.7	9.5	-171 bps	6.9	86 bps	One of other expenses (~₹ 16 crore forex loss) and lower operating leverage (owing to lower volume growth) dragged margin in Q4FY20
Depreciation	22.0	16.8	30.8	21.5	2.3	
Interest	9.8	7.8	25.5	10.5	-6.5	
Exceptional items						
PBT	70.1	93.9	-25.4	24.5	186.3	
Total Tax	7.3	27.1	-73.2	-0.3	-2307.4	Transition to new corporate tax rate helped save tax outflow
PAT	62.8	66.8	-6.0	24.8	153.2	

**Key Metrics\***

RAC	829.0	803.8	3.1	431.0	92.3	Lower offtake of RACs owing to Covid-19 related shutdown impacted revenue
Component & Mobile Applications	486.2	392.3	23.9	357.4	36.0	Strong growth in component business on low base and addition of new customers

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ crore)	FY20E			FY21E			Introduced FY22E	Comments
	Est.	Actual	% Chg	Old	New	% Chg		
Revenue	3,313.6	3,962.8	19.6	3,937.3	3,295.5	(16.3)	4,629.1	RAC segment likely to face challenging year in FY21E in terms of lower volume offtake by key clients (due to loss of peak season). However, with normalisation of inventory at dealer's level, we expect strong demand revival for Amber
EBITDA	265.1	309.3	16.7	326.8	227.4	(30.4)	402.7	
EBITDA Margin (%)	8.0	7.8	-20bps	8.3	6.9	-140bps	8.7	Change in mix coupled with various cost rationalisation measures would help recovery in margin from FY22E
PAT	139.6	164.1	43.2	181.3	47.5	(73.8)	172.8	
EPS (₹)	44.4	52.2	43.2	57.7	15.1	(73.8)	54.9	

Source: Company, ICICI Direct Research

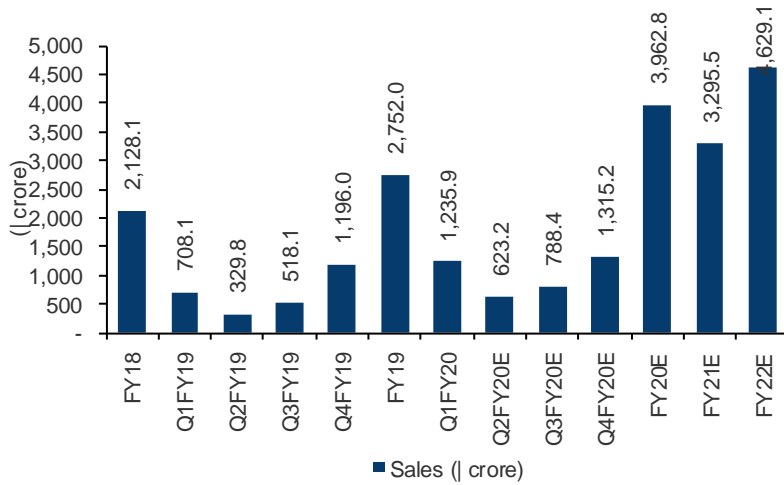
**Exhibit 3: Assumptions**

(%)	Current				Comments
	FY19	FY20	FY21E	FY22E	
RAC	14.0	40.0	(21.0)	38.0	We believe normalisation of inventory level at dealers would help drive demand for the company
Component & Mobile Applications	69.0	51.0	(17.0)	40.5	Intact business of Sidwal, coupled with increased wallet share from existing customers would help drive revenue for component and mobile application business

Source: Company, ICICI Direct Research

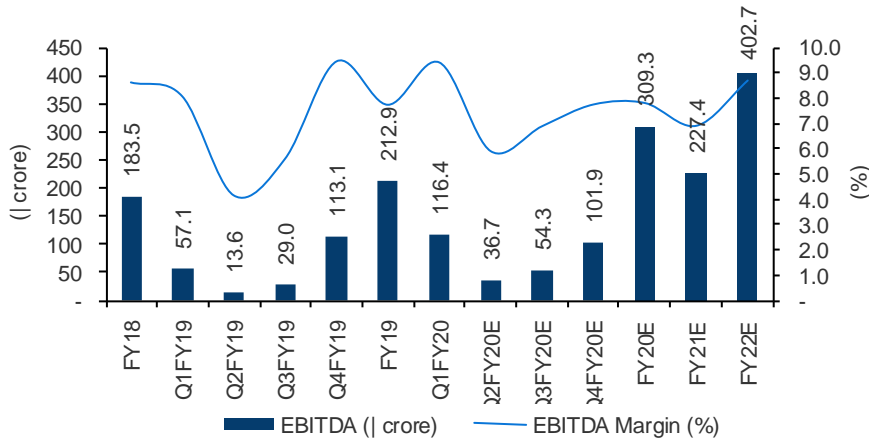
### Financial story in charts

Exhibit 4: Gradual recovery in revenue from H2FY21E



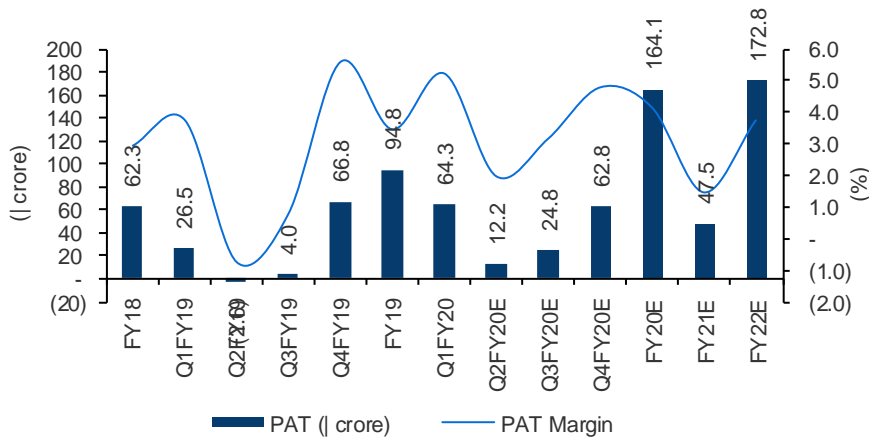
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin to remain at current level



Source: Company, ICICI Direct Research

Exhibit 6: Recovery in sales, margin to drive PAT



Source: Company, ICICI Direct Research

## Conference call highlights

### RAC segment

- RAC volume grew from 2.1 million (mn) units in FY19 to ~3 mn in FY20 (jump of 43% YoY)
- Post relaxation from lockdown, the company is seeing signs of a demand revival from Tier II and Tier III cities. Post lockdown, dealers witnessed robust demand for ACs, especially in north India. Some dealers have seen stock out situation due to sudden spike in demand
- Many companies are intending to reduce dependency on China and also looking to develop alternate source of supply. Few brands have already approached companies who were earlier sourcing from China
- The company is witnessing shift in consumer preference to outsource domestically due to increase in import duty in RACs from 10% to 20% (in 2019). Post Covid-19, customers are looking to increase proportion of domestic outsourcing
- In value terms, ~28% of finished RAC and ~2 mn units of IDU still imported in India. Expect some policy intervention from government to curb imports
- The company do not have a policy to keep inventory for more than 24 hours. Hence, at present, the company does not have inventory of finished goods. It has inventory of raw materials compressors, coppers, etc
- The company expects that dealer inventory will be cleared in in 20 days but inventory at brands level will take time to liquidate for a few more quarters
- The company does not see any threat of price erosion by China on the sourcing front. Even if China wants to offload inventory of finished goods and raw material at a cheaper prices, the custom duty clause (anti-dumping duty in case of excess dumping of goods) will be revoked to safe guard domestic manufactures
- If strong demand for air conditioners continues as in May, inventory level at dealers would reach normal by June 2020. The company lost ~₹ 150 crore of sales in the last 10 days of March due to lockdown, which could have generated additional ₹ 20 crore of EBITDA
- Total inventory at channel was ~2 mn units before the lockdown. Normally channel carry inventory of 2 mn units of which 5 lakh units are with dealers and ~1.5 lakh happens to be in warehouse. In the last 15 days of May ~5 lakh units of AC units were sold because of heatwave. Hence, if current rate of sales continues the inventory would reach normalisation within three to four weeks
- China manufactures ~110 mn units of RACs while India has 7 mn units. Post hike in custom duty outsourcing of window air conditioners from stopped completely

### Component and mobile application

- Positive on various initiatives by Government of India under vocal for local initiatives to be a self-reliant and component eco-system to be develop to reduce dependency from import
- Continuous expenditure on R&D in the commercial cooling space to increase wallet share from existing customers and increase customer base
- Order book in hand is healthy for Sidwals. The company is confident on growth outlook of Sidwals. Increasing air conditioned coaches and metro being manufactured company is confident of growth outlook for Sidwals. Despite zero sales in April, the company is still seeing ~15-20% growth in Sidwals in FY21 if we do not get second wave of pandemic

- The company does ~₹ 25-30 crore of AMC with railways through Sidwals on the roof mounted air conditioners for railways
- Commercial air conditioners getting good outsourcing demand (earlier used to manufacture by brand) due to strategy of asset light model. The company is looking a big opportunity in the commercial refrigeration space which is ~₹ 30,000 crore industry. The company's Sidwals business is looking to expand their business in this direction, going forward
- PICL business growth came on the back of increased demand of local manufactured products as well as wallet share gain from existing customers, product basket addition and adding more customers
- PICL used to have margin of ~8-10% earlier due to good export order from Middle East, however margin shrunk to 6% due to crisis in Middle East. So company quickly shifted to domestic market and now domestic markets contributes ~90% of revenue while 10% contributed by exports. Earlier it was 50:50% between domestic and export. The maintainable margin of PICL will be 7-8% by FY21
- As market is moving rapidly in the inverter category of Air Conditioners Company is confident of achieving better EBITDA margin through increasing efficiently for ILJIN and EVER going forward.
- Revenue of ILJIN and EVER reported a slow growth in FY20 over FY19 (contributes ~15% in topline) as company is focusing only on higher margin business. When both this acquired (2 years back) consolidated EBITDA was ₹ 14 crore, with the same sales the EBITDA has now increased to ~₹ 27 crore, just because of right product mix. Quarterly margin of these companies may fluctuate depending upon the nature of the orders
- No plan to enter into compressor business in the short term rather increasing focus into components side such as electronic motors (expanding line for manufacturing of BLDC motors)
- On the component eco systems Motors, PCBs boards, Heat Exchanger, compressors etc are major imported products. However it will take time to start manufacturing of these products due to reliable factor from brands. will start manufacturing in India. Importers of these products do the reliable check which ranges from six months to one year

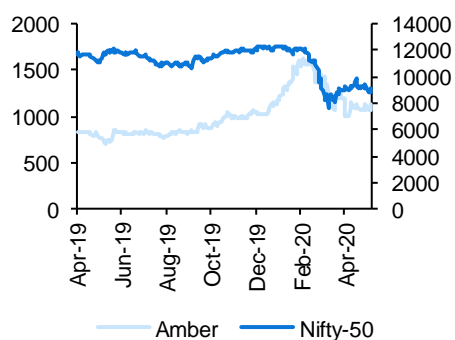
### Export opportunities

- Witnessed "China +1" strategy capitalizing in the last couple of quarters.
- Company was participated in air conditioner expo in US in feb'20 to understand the product and market as whole. Company got good response in that expo in terms of more enquires even pre-Covid time. Company has started exporting motors in US.
- US imports ~20 mn complete units of AC from China and Thailand. So post Covid-19 posted a good opportunity for company is terms of import opportunity
- The company has already started exporting motors to US and getting good response from the orders. Company expects more such orders
- The company is targeting export to be a significant revenue contributors in the next four to five years
- Not seen any new competition coming up and does not expect for at least one or two years due to Covid-19 issues

## Others

- Focus on cost rationalisation, strict monitoring on fixed cost (promoters takes 50% pay cut for three months i.e. May, June, July)
- Capacity utilisation is ~55% in general and peak season utilisation at 85%
- Do not see any major risk on receivables front, given the high quality of customers
- Negotiating with suppliers for extension of credit periods
- Higher other expenditure in the current quarter mainly due to foreign exchange losses which will be pass through the customers in the next quarter
- Q1FY21 revenue and profitability to be impacted due to plant shutdown
- Effective tax rate 35% for Amber Enterprises. All subsidiaries will be 22%+ surcharges
- Sustainable working capital days is 35 days 40 days
- Maintenance capex ~₹ 45 crore, R&D and product development another ₹ 25-30 crore, additional capex if required for expansion
- Debt level to increase from FY20 due to delay in receivables days and some letter of credit to be honoured. Debt level to increase in Q1 and Q2, than it will gradual come down

**Exhibit 7: Historical price trend**



Source: Bloomberg, Company, ICICI Direct Research

**Exhibit 8: Shareholding Pattern**

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	44.0	44.0	44.0	44.0	44.0
FII	11.5	11.4	11.5	12.5	12.4
DII	5.8	5.7	5.9	6.0	7.2
Others	38.7	38.9	38.5	37.5	36.4

Source: Company, ICICI Direct Research

## Financial summary

Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
<b>Revenue</b>	<b>2,752.0</b>	<b>3,962.8</b>	<b>3,295.5</b>	<b>4,629.1</b>	
Growth (%)	29.3	44.0	-16.8	40.5	
Raw material expe	2,313.2	3,324.7	2,718.8	3,819.0	
Employee expense	58.8	106.3	118.6	129.6	
Other expenses	167.2	245.5	230.7	277.7	
Total Operating Ex	2,539.1	3,653.5	3,068.1	4,226.4	
<b>EBITDA</b>	<b>212.9</b>	<b>309.3</b>	<b>227.4</b>	<b>402.7</b>	
Growth (%)	16.0	45.3	-26.5	77.1	
Depreciation	62.3	84.8	112.0	129.6	
Interest	24.6	41.9	57.6	44.7	
Other Income	9.9	8.2	8.2	11.6	
PBT	135.9	190.7	66.0	240.0	
Total Tax	41.2	26.6	18.5	67.2	
<b>PAT</b>	<b>94.8</b>	<b>164.1</b>	<b>47.5</b>	<b>172.8</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Profit after Tax	93.7	164.1	47.5	172.8	
Add: Depreciation	62.3	84.8	112.0	129.6	
(Inc)/dec in Current As	-600.5	-176.3	-140.9	-397.9	
Inc/(dec) in CL and Prc	394.5	211.5	-49.9	303.7	
Others	24.6	41.9	57.6	44.7	
<b>CF from operating a</b>	<b>-25.5</b>	<b>326.1</b>	<b>26.3</b>	<b>252.9</b>	
(Inc)/dec in Investment	5.7	0.0	0.0	0.0	
(Inc)/dec in Fixed Assu	-164.2	-303.9	-80.0	-80.0	
Others	-5.5	27.4	0.2	-0.9	
<b>CF from investing a</b>	<b>-164.0</b>	<b>-276.5</b>	<b>-79.8</b>	<b>-80.9</b>	
Issue/(Buy back) of Ec	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	125.2	89.8	110.0	-50.0	
Dividend paid & divider	0.0	-12.1	-3.8	-3.8	
Others	-24.8	-51.7	-141.1	-44.7	
<b>CF from financing a</b>	<b>100.3</b>	<b>26.0</b>	<b>-34.9</b>	<b>-98.5</b>	
Net Cash flow	-89.1	75.6	-88.4	73.5	
Opening Cash	133.8	44.7	120.3	31.9	
Closing Cash	44.7	120.3	31.9	105.4	

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
<b>Liabilities</b>					
Equity Capital	31.4	31.4	31.4	31.4	
Reserve and Surplus	954.7	1,097.0	1,057.1	1,226.1	
Total Shareholders func	986.1	1,128.4	1,088.6	1,257.6	
Total Debt	230.7	320.5	430.5	380.5	
Other non current liabilit	92.6	178.0	178.0	178.0	
<b>Total Liabilities</b>	<b>1,309.5</b>	<b>1,626.9</b>	<b>1,697.1</b>	<b>1,816.1</b>	
<b>Assets</b>					
Gross Block	1,022.8	1,357.2	1,437.2	1,517.2	
Less: Acc Depreciation	280.3	365.0	477.1	606.7	
Total Fixed Assets	776.2	995.3	963.3	913.7	
Investments	0.0	0.0	0.0	0.0	
Inventory	560.6	655.7	677.2	887.8	
Debtors	787.2	854.2	993.2	1,141.4	
Loans and Advances	24.7	29.3	24.4	34.3	
Other CA	77.3	86.8	72.2	101.4	
Cash	44.7	120.3	31.9	105.4	
Total Current Assets	1,494.5	1,746.3	1,798.9	2,270.3	
Creditors	940.7	1,106.8	1,083.5	1,331.7	
Provisions	6.2	12.8	12.5	15.3	
Other CL	117.5	156.4	130.1	182.7	
Total Current Liabilities	1,064.4	1,275.9	1,226.0	1,529.7	
Net current assets	430.1	470.4	572.9	740.6	
Other non current asse	103.2	161.2	161.0	161.8	
<b>Total Assets</b>	<b>1,309.5</b>	<b>1,626.9</b>	<b>1,697.1</b>	<b>1,816.1</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
<b>Per share data (₹)</b>					
EPS	30.1	52.2	15.1	54.9	
Cash EPS	50.0	79.2	50.7	96.2	
BV	313.6	358.8	346.2	399.9	
DPS	0.0	3.8	1.2	1.2	
<b>Operating Ratios (%)</b>					
EBITDA Margin	7.7	7.8	6.9	8.7	
PAT Margin	3.4	4.1	1.4	3.7	
Asset Turnover	2.7	2.9	2.3	3.1	
Inventory Days	74.4	60.4	75.0	70.0	
Debtor Days	104.4	78.7	110.0	90.0	
Creditor Days	124.8	101.9	120.0	105.0	
<b>Return Ratios (%)</b>					
RoE	9.6	14.5	4.4	13.7	
RoCE	12.3	14.3	7.3	15.7	
RoIC	12.1	15.0	7.1	15.8	
<b>Valuation Ratios (x)</b>					
P/E	49.2	28.4	98.1	27.0	
EV / EBITDA	22.8	15.7	22.2	12.3	
EV / Net Sales	1.8	1.2	1.5	1.1	
Market Cap / Sales	1.7	1.2	1.4	1.0	
Price to Book Value	4.7	4.1	4.3	3.7	
<b>Solvency Ratios</b>					
Debt / Equity	0.2	0.3	0.4	0.3	
Current Ratio	1.5	1.5	1.6	1.6	
Quick Ratio	0.9	0.9	1.0	0.9	

Source: Company, ICICI Direct Research



Exhibit 12: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E
Asian Paints (ASIPAI)	1,634	1,900	Buy	1,56,701	29.9	32.5	38.6	54.6	50.3	42.3	36.3	33.1	27.9	30.7	31.5	33.5	26.6	26.3	27.8
Astral Polytechnik (ASTP)	902	900	Hold	13,590	16.6	14.2	20.0	54.4	63.3	45.1	27.8	30.4	23.3	20.5	16.3	20.2	16.6	12.6	15.4
Amber Enterprises (AM)	1,482	1,565	Hold	4,660	52.2	15.1	54.9	28.4	98.1	27.0	15.7	22.2	12.3	14.3	7.3	15.7	14.5	4.4	13.7
Havells India (HAVIND)	546	575	Buy	34,065	11.7	7.8	13.2	46.5	69.7	41.3	29.0	36.8	23.3	19.6	14.0	21.2	17.0	11.2	17.1
Kansai Nerolac (KANNE)	395	415	Buy	21,287	9.9	7.8	10.4	39.8	50.6	38.0	26.6	31.2	24.1	17.6	14.5	17.9	14.1	11.1	13.7
Pidilite Industries (PIDINI)	1,492	1,485	Buy	76,492	25.0	26.7	31.3	59.7	55.9	47.7	37.9	35.8	30.5	32.7	30.6	30.9	26.6	24.5	24.6
Polycab India (POLI)	802	855	Buy	11,940	51.4	36.2	53.2	15.6	22.2	15.1	9.6	12.4	9.1	26.5	16.9	20.3	20.0	12.3	15.6
Supreme Indus (SUPINE)	1,082	1,040	Hold	13,744	38.5	36.8	27.6	39.7	29.4	39.2	15.1	18.3	13.9	22.5	15.7	21.1	20.7	15.0	19.5
Symphony (SYMLIM)	899	1,055	Buy	6,289	26.0	23.7	35.1	34.6	38.0	25.6	28.9	32.1	20.6	28.8	23.9	31.9	29.0	22.7	28.9
V-Guard Ind (VGUARD)	183	210	Buy	7,790	4.4	3.5	5.1	42.1	51.7	35.9	29.6	35.6	24.8	24.8	19.1	23.9	18.6	14.5	18.2
Voltas Ltd (VOLTAS)	560	635	Buy	18,521	15.8	9.5	21.4	35.5	59.0	26.1	25.1	46.0	20.3	19.5	11.2	20.1	13.0	7.2	14.9

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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