

Profitability shows recovery...

About the stock: Amber is a leading solution provider for air conditioner OEM/ODM industry in India.

- The company has a product portfolio including RACs, RAC components and other non-AC components
- Derives ~43% of its revenues from RACs and the rest from components and mobility applications

Q4FY23 Results: New customer additions across divisions drive topline.

- Consolidated revenue increased 55% YoY ₹ 3002.6 crore led by uptick in demand for RAC & components coupled with new customer additions
- Gross margin remained flat YoY (down 341 bps QoQ), mainly due to a change in product mix. However, better operating leverage resulted in an EBITDA margin improvement by 31 bps YoY (95 bps QoQ) to 6.8%
- Despite higher interest outgo (up 2x YoY to ~₹ 38 crore) PAT grew ~1.8x YoY to ₹ 108.1 crore tracking strong topline growth in Q4

What should investors do? Amber's share price has grown by ~1.9x over the past five years (from ~₹ 1150 in January 2018 to ~₹ 2145 levels in May 2023).

- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value the stock at 28x FY25E EPS with a revised target price of ₹ 2430/share.

Key triggers for future price performance:

- The AC industry is likely to grow ~16% YoY in FY24E supported by an upturn in the real estate industry and changing lifestyle. Amber, having the largest market share of ~29% (in terms of bills of materials), will be a key beneficiary of increased RAC demand
- Increasing demand for wearables, telecom products & addition of new customers to drive revenue growth of non RAC divisions
- The company has added two new overseas customers. This will help drive export revenue from FY24E onwards

Alternate Stock Idea: We like Havells in our coverage.

- Havells has a strong presence in the organised product category across its segments ranging from cables, switchgears, ACs, etc. Its market share ranges between 6% and 20% across these segments
- BUY with a target price of ₹ 1425



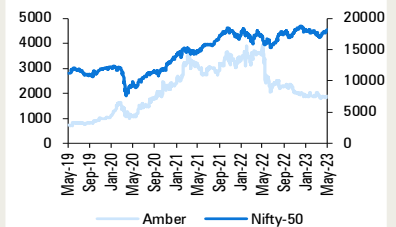
Particulars

Particular	Amount
Market Cap (₹ Crore)	7,227.3
Total Debt (FY23) (₹ Crore)	1,343.7
Cash & Inv (FY23) (₹ Crore)	559.9
EV (₹ Crore)	8,011.1
52 week H/L	2799/ 1762
Equity capital (₹ Crore)	33.7
Face value (₹)	10.0
MF Holding (%)	

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	40.3	40.3	40.3	40.3	40.3
FII	28.1	26.9	26.4	27.1	23.9
DII	9.2	8.8	13.9	11.5	13.6
Others	22.4	24.1	19.4	21.1	22.2

Price Chart



Recent event & key risks

- Key Risk:** (i) Strong demand for RAC and its component (ii) Pressure in EBITDA margin owing to adverse product mix and delay in price hikes

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Key Financial Summary

₹ Crore	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-23)	FY24E	FY25E	2 Year (CAGR 23-25E)
Net sales	3962.8	3030.5	4206.4	6927.1	20%	8109.0	9730.7	19%
EBITDA	309.3	220.3	275.4	417.9	11%	494.6	603.3	20%
EBITDA Margin(%)	7.8	7.3	6.5	6.0		6.1	6.2	
Net Profit	164.1	83.3	111.3	163.8	0%	215.7	297.7	35%
EPS (₹)	52.2	24.7	33.0	48.6		64.0	88.4	
P/E(x)	41.1	86.8	64.9	44.1		33.5	24.3	
RoE (%)	14.5	5.2	6.4	8.6		10.7	12.9	
RoCE (%)	14.3	7.7	6.8	9.3		12.1	14.2	

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Sharp growth in revenue drives bottomline in Q4

- Consolidated revenue up 55% YoY to ₹ 3002.6 crore led by strong demand for RAC & components and new customer additions
- Segment wise, RAC & components revenue grew sharply by 55% YoY to ₹ 2371 crore supported by new customer additions and expansion of geographies. Mobility segment revenue increased ~46% YoY to ~ ₹ 113 crore on the back of wallet share gains and growth in railways/defence application business. Electronics segment revenue grew ~69% YoY to ₹ 415 crore on a favourable base and robust demand for wearables. Motor segment revenue grew 31% YoY to ₹ 105 crore led by expansion of BLDC motors in outdoor unit, window AC and commercial AC segment
- Change in product mix led to flattish gross margin YoY (down 341 bps QoQ). The EBITDA margin witnessed a marginal improvement of 31 bps YoY (95 bps QoQ) to 6.8% led by better operating leverage
- Despite a sharp rise in interest cost (up ~2x to ~₹ 38 crore), PAT grew ~1.8x YoY to ₹ 108.1 crore tracking strong topline growth and recovery in EBITDA margin

Q4FY23 Earnings Conference Call highlights:

Market Share:

- Amber's value market share in RAC & RAC components improved from 26.6% in FY22 to 29.4% in FY23
- The company has ~27% market share in motors
- Amber is the largest player in sheet metals with a market share in the range of 35-40%
- Its market share in cross flow fans is ~25%

RAC & components division:

- The management expects subdued demand in Q1FY24 due to unseasonal rains in some parts of the country
- Channel inventory in the segment is elevated. The management expects it to get liquidated in June-July 2023
- RAC market size in FY22 was at 8.4 million units. As per the management, the industry is likely to grow ~10-15% to ~9.5 million units in FY24. Amber is likely to grow faster (300-400 bps YoY) than the industry growth
- The company added new customers in all its product categories during FY23. Currently, it has 26 customers in the segment
- Amber achieved its threshold limits on both incremental sales and incremental capex required under the PLI scheme

Mobility division:

- Amber has an order book of ~₹ 700 crore in the segment
- The company commenced production of pantry systems for Vande Bharat trains
- According to the management, the defence application business is witnessing robust growth
- Amber is focusing on expanding its wallet share in existing customers
- As per the management, the offering in bills of materials for metro project is likely to double. As a result, the management expects revenue from metro to double in the next three to four years

Motors division:

- The company is expanding BLDC motors in outdoor unit, window AC and commercial AC segment

Amber Ent - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	-	-	28.0
Social	-	-	30.6
Governance	-	-	66.1
Overall ESG Score	-	-	41.6

*Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG*

- According to the management, export of motors is growing steadily
- The company expects to add two large customers in FY24 and expects 30-35% growth in the division

Margins:

- The company has not taken any price hikes
- The management expects increased capacity utilisation levels and stable raw material price to add to absolute EBITDA, going forward
- The management expects EBITDA to grow 25-30% on an absolute basis
- Its margins across product categories range between 4.5% and 23%

Capex & capacity utilisation:

- Amber completed capex of ₹ 698 crore in FY23
- The company has envisaged capex of ~₹ 350-375 crore for FY24 for R&D and maintenance, expansion in subsidiary businesses and brownfield expansion in sub-assemblies & components
- The company's overall capacity utilisation is at 65-70%. Capacity utilisation at its new greenfield facility in Sri City is ~20% and is expected to go up to 35-40% in FY24
- Plans to reduce net debt by ₹ 200 crore in FY24E

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Dixon	17,574	10697	12241	17878	22152	4	4	4	4	190	240	404	525	18	22	28	29	19	25	32	31	92	73	43	33
Amber	7,227	4206	6927	8109	9731	7	6	6	6	111	164	216	298	7	9	12	14	6	9	11	13	65	44	34	24

Source: ICICI Direct Research

After a muted 9MFY23 performance, Amber delivered a healthy performance in Q4 led by robust topline growth. Going forward, the management has continued guiding for better than industry growth for the company in FY24E supported by customer additions and market share gains in the component business. Amber is also in discussions with a few overseas customers for the export of 'AC Motors', which will help drive export revenues from FY24E onwards. We model consolidated revenue CAGR of ~19% in FY23-FY25E on the back of strong growth in the components division.

On the margin front, the company's growing focus on components and electronics (~50% of total revenue) is likely to keep consolidated EBITDA margin under check. The component & electronics EBITDA margin ranges between 3% and 7%. Hence, despite strong revenue growth, the EBITDA margin is likely to remain flat in FY23-25E due to an adverse product mix. We cut our PAT estimate by ~7.7% for FY24E factoring in downward revision of our revenue and EBITDA margin estimates. On the balance sheet front, Amber has envisaged capex of ~₹ 350-375 crore and aims to reduce its net debt by ~₹ 200 crore in FY24E. We maintain our HOLD rating on the stock with a revised target price of ₹ 2430/share (valuing the stock at 28x FY25E EPS).

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	3002.6	1936.7	55.0	1348.3	122.7	Strong demand across product categories coupled with customer addition helped drive overall revenue growth in Q4
Other Income	18.7	9.4	99.3	8.9	109	
Raw Material Exp	2593.3	1669.9	55.3	1118.5	131.9	Change in product mix dragged overall gross margin down by 341 bps QoQ (15 bps YoY)
Employee cost	63.8	42.7	49.4	54.2	17.8	
Other Expenditure	142.0	98.8	43.7	97.1	46.3	
Total Expenditure	2799.1	1811.4	54.5	1269.8	120.4	
EBITDA	203.5	125.3	62.4	78.5	159.2	
EBITDA Margin (%)	6.8	6.5	31 bps	5.8	95 bps	EBITDA margin expansion is attributable to improved operating leverage supported by strong volume growth in Q4
Depreciation	38.8	30.2	28.5	36.3	7.0	
Interest	37.5	18.6	101.7	28.9	29.5	Sharp increase in interest costs is largely attributable to higher debt on the book
Exceptional items						
PBT	145.9	85.9	69.9	21.9	567.2	
Total Tax	37.8	26.6	42.3	7.1	429.9	
PAT	108.1	59.3	82.3	14.7	633.6	PAT growth is attributable to strong topline growth and EBITDA margin expansion in Q4

Key Metrics						
RAC & components	2,372.0	1,530.0	55.0	905.0	162.1	Strong demand for RAC coupled with new customer addition drove segment sales in Q4
Motor Divison	105.0	80.0	31.3	72.0	45.8	Expanding product portfolio (for outdoor unit, window ACs and commerical ACs) helped drive segment revenue growth
Electronic Division	415.0	245.0	69.4	261.0	59.0	Strong growth in the wearable segment and market share gains in the RAC-PCB market helped drive segment revenue
Mobility Division	113.0	83.0	36.1	110.0	2.7	Robust order book led by Railways (Vande Bharat Express) and defence segments drove segment revenue growth

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ crore)	FY24E			FY25E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	8,134.1	8,109.0	(0.3)	9,512.9	9,730.7	2.3	We slightly revise our revenue estimate downward for FY24E considering the RAC & component demand will be impacted by erratic weather conditions across regions. We model revenue CAGR of 19% over FY23-25E led by strong component revenue segment growth
EBITDA	520.6	494.6	(5.0)	618.3	603.3	(2.4)	
EBITDA Margin (%)	6.4	6.1	-30bps	6.5	6.2	-30bps	We lower our margin estimates considering rising proportion of component segment revenue (component segment EBITDA margin ranges between ~3% and 7%)
PAT	233.7	215.7	(7.7)	293.5	297.7	1.4	
EPS (₹)	69.4	64.0	(7.7)	87.1	88.4	1.4	

Source: ICICI Direct Research

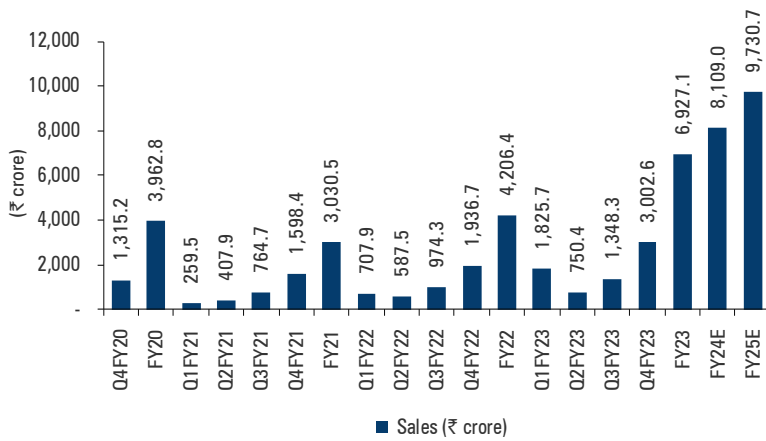
Exhibit 4: Assumptions

(%)	Current					Earlier			Comments
	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY24E	FY25E	
RAC & components	36.7	(23.5)	36.6	65.5	13.5	16.7	24.6	13.0	We build in segment revenue CAGR of 15% over FY23-25E supported by customer additions and wallet share gains from the existing customer
Mobility & other components	69.7	(23.6)	45.0	62.4	26.9	28.2	31.7	27.1	Strong order book of Sidwal and new customer additions in the non AC components will drive segment revenue at a CAGR of 28% over FY23-25E

Source: ICICI Direct Research

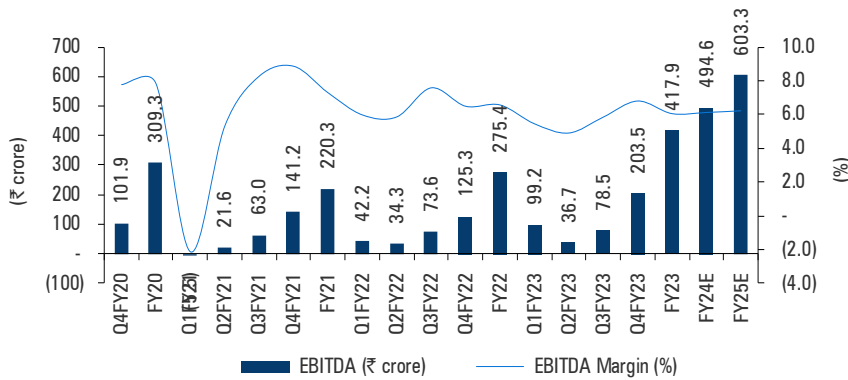
Financial story in charts

Exhibit 5: Revenue trend



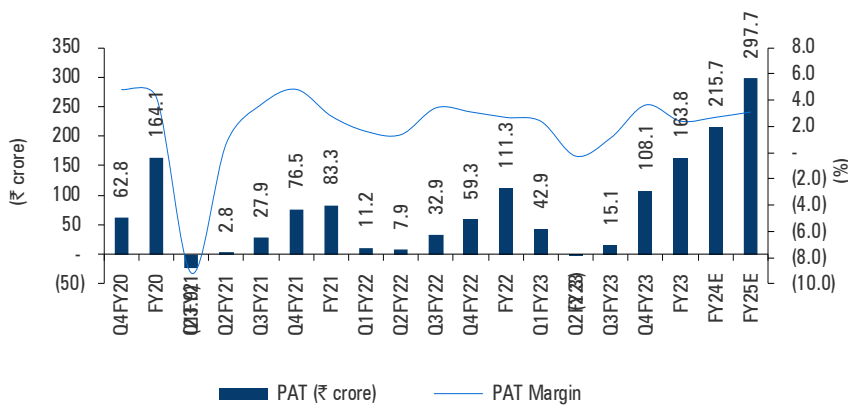
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 7: PAT & PAT margin movement



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Revenue	4,206.4	6,927.1	8,109.0	9,730.7
Growth (%)	38.8	64.7	17.1	20.0
Expenses				
Raw material expense	3,524.9	5,925.0	6,852.1	8,261.4
Employee expenses	150.0	211.6	259.5	291.9
Other expenses	251.4	429.8	502.8	574.1
Total Operating Exp	3,931.0	6,509.2	7,614.3	9,127.4
EBITDA	275.4	417.9	494.6	603.3
Growth (%)	25.0	51.8	18.4	22.0
Depreciation	107.9	139.1	154.1	173.2
Interest	46.4	111.8	101.6	80.6
Other Income	33.2	52.7	48.7	48.7
PBT	154.3	219.7	287.6	398.1
Total Tax	42.9	55.9	71.9	100.4
PAT	111.3	163.8	215.7	297.7
Growth (%)	33.7	47.1	31.7	38.0
EPS (₹)	33.0	48.6	64.0	88.4

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	111.3	163.8	215.7	297.7
Add: Depreciation	107.9	139.1	154.1	173.2
(Inc)/dec in Current Assets	-421.9	-801.8	-261.4	-669.8
Inc/(dec) in CL and Provisions	439.6	754.6	458.7	631.4
Others	46.4	111.8	101.6	80.6
CF from operating activities	283.4	367.6	668.7	513.1
(Inc)/dec in Investments	-105.6	103.4	2.3	0.0
(Inc)/dec in Fixed Assets	-530.6	-780.8	-350.0	-200.0
Others	-29.2	96.3	-39.3	-56.5
CF from investing activities	-665.4	-581.1	-387.0	-256.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	682.4	311.9	-430.0	-130.0
Dividend paid & dividend tax	-8.1	0.0	0.0	0.0
Others	-19.6	-101.0	-219.0	-80.6
CF from financing activities	654.7	210.9	-649.0	-210.6
Net Cash flow	272.7	-2.7	-367.3	46.0
Opening Cash	290.0	562.6	559.9	192.6
Closing Cash	562.6	559.9	192.6	238.6

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Liabilities				
Equity Capital	33.7	33.7	33.7	33.7
Reserve and Surplus	1,700.5	1,875.1	1,973.4	2,271.1
Total Shareholders funds	1,734.2	1,908.8	2,007.1	2,304.8
Total Debt	1,031.8	1,343.7	913.7	783.7
Other non current liabilities	202.9	292.7	292.6	292.7
Total Liabilities	2,969.0	3,545.2	3,213.4	3,381.2
Assets				
Gross Block	1,947.4	2,820.8	3,170.8	3,370.8
Less: Acc Depreciation	565.2	704.4	858.4	1,031.6
Total Fixed Assets	1,487.7	2,129.4	2,325.3	2,352.1
Goodwill	145.7	142.5	142.5	142.5
Inventory	840.8	1,091.3	1,444.1	1,732.9
Debtors	1,314.9	1,763.1	1,777.3	2,132.8
Loans and Advances	1.8	3.9	3.5	4.2
Other CA	128.1	229.2	124.0	148.8
Cash	562.6	559.9	192.6	238.6
Total Current Assets	2,848.3	3,647.4	3,541.5	4,257.2
Creditors	1,702.1	2,303.9	2,666.0	3,199.1
Provisions	18.6	22.3	28.6	34.3
Other CL	222.8	371.9	462.3	554.7
Total Current Liabilities	1,943.5	2,698.1	3,156.8	3,788.2
Net current assets	904.8	949.3	384.6	469.0
Other non current assets	430.8	324.1	361.0	417.6
Total Assets	2,969.0	3,545.2	3,213.4	3,381.2

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	33.0	48.6	64.0	88.4
Cash EPS	65.1	89.9	109.8	139.8
BV	514.7	566.5	595.7	684.0
DPS	2.4	0.0	0.0	0.0
Operating Ratios (%)				
EBITDA Margin	6.5	6.0	6.1	6.2
PAT Margin	2.6	2.4	2.7	3.1
Asset Turnover	2.2	2.5	2.6	2.9
Inventory Days	73.0	57.5	65.0	65.0
Debtor Days	114.1	92.9	80.0	80.0
Creditor Days	147.7	121.4	120.0	120.0
Return Ratios (%)				
RoE	6.4	8.6	10.7	12.9
RoCE	6.8	9.3	12.1	14.2
RoIC	8.2	9.7	11.5	13.8
Valuation Ratios (x)				
P/E	64.9	44.1	33.5	24.3
EV / EBITDA	27.5	18.7	16.1	12.9
EV / Net Sales	1.8	1.1	1.0	0.8
Market Cap / Sales	1.7	1.0	0.9	0.7
Price to Book Value	4.2	3.8	3.6	3.1
Solvency Ratios				
Debt / Equity	0.6	0.7	0.5	0.3
Current Ratio	1.3	1.3	1.2	1.2
Quick Ratio	0.8	0.9	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct universe (Consumer Discretionary)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
					FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Asian Paints (ASIPAI)	3,092	3,425	Hold	2,96,523	32.2	43.7	51.9	56.6	96.1	70.7	59.6	54.6	61.1	46.8	38.7	34.2	27.1	30.8	32.7	30.8	23.0	26.5	27.3	24.8
Berger Paints (BERPAI)	620	670	Hold	60,227	8.6	8.9	11.3	13.3	72.3	70.0	55.1	46.7	45.4	40.8	33.0	28.8	23.3	22.2	27.2	28.7	21.2	19.1	23.7	24.3
Kansai Nerolac (KANNER)	409	440	Hold	22,042	6.4	8.7	10.7	12.7	64.2	47.1	38.3	32.1	33.8	26.8	22.4	18.9	11.7	14.0	17.4	19.0	8.3	10.3	13.0	14.1
Pidlite Industries (PIDIND)	2,545	2,535	Hold	1,29,235	23.8	25.4	34.6	41.2	107.1	100.3	73.6	61.8	69.7	64.8	49.0	41.6	21.7	21.5	25.3	26.9	18.4	17.9	20.9	22.1
Sheela Foam (SHEFOA)	1,054	1,450	Buy	10,283	22.3	20.1	29.0	36.2	47.3	52.5	36.3	29.1	33.3	36.3	25.8	20.9	18.0	16.3	19.0	23.5	15.6	13.2	15.6	19.4
Bajaj Electricals (BAJELE)	1,175	1,275	Hold	13,495	10.8	19.5	31.1	36.8	108.5	60.3	37.8	32.0	53.6	36.9	26.6	22.6	13.5	20.2	24.6	24.3	7.8	13.5	18.2	18.1
Crompton Greaves(CROGR)	254	335	Hold	15,921	9.2	7.3	9.0	11.3	27.5	34.9	28.4	22.5	20.8	21.9	18.3	15.1	16.2	14.3	17.6	21.4	24.0	18.5	20.5	22.6
Havells India (HAVIND)	1,269	1,425	Buy	79,477	19.1	17.2	24.9	29.4	66.5	73.9	51.0	43.2	44.0	48.4	34.8	29.4	23.7	20.6	26.9	29.8	20.0	16.3	21.9	24.2
Polycab India (POLI)	3,438	3,780	Hold	51,379	61.4	85.8	93.5	108.3	56.0	40.1	36.8	31.7	39.7	26.7	24.0	20.5	20.2	25.7	25.5	25.5	15.6	19.3	19.0	19.0
Symphony (SYMLIM)	894	1,085	Hold	6,254	17.3	22.7	28.4	36.2	51.7	39.4	31.5	24.7	37.7	33.1	25.9	20.1	15.9	21.0	25.0	28.4	14.4	21.2	24.2	26.7
V-Guard Ind (VGUARD)	254	310	Buy	10,879	5.3	4.6	6.7	8.9	47.6	55.3	37.8	28.7	32.0	34.9	21.9	18.0	21.2	16.0	22.0	23.5	16.2	14.0	17.0	18.7
Voltas Ltd (VOLTAS)	803	870	Hold	26,558	15.3	4.1	20.0	25.5	52.5	195.0	40.2	31.5	38.0	45.7	30.0	23.7	14.0	11.4	17.6	19.8	9.2	4.5	13.3	15.1
Amber Enterprises (AMBEN)	2,145	2,430	Hold	7,227	33.0	48.6	64.0	88.4	64.9	44.1	33.5	24.3	27.5	18.7	16.1	12.9	6.8	9.3	12.1	14.2	6.4	8.6	10.7	12.9
Dixon Technologies (DIXTEC)	2,961	3,055	Hold	17,574	32.1	40.4	68.1	88.5	92.3	73.2	43.5	33.5	46.7	36.6	24.7	19.2	17.7	22.0	27.9	29.1	19.1	24.6	31.7	31.0
Supreme Indus (SUPIND)	2,799	3,200	Buy	35,555	76.2	68.1	83.2	98.6	36.7	41.1	33.7	28.4	28.2	29.0	23.9	19.8	25.9	21.2	26.1	27.5	25.2	19.7	23.5	24.4
Astral Ltd (ASTPOL)	1,720	1,780	Hold	46,268	18.2	17.1	25.3	32.1	94.3	100.7	68.1	53.5	60.5	56.4	43.1	34.4	26.7	21.3	26.2	28.7	21.1	17.0	21.9	23.8
EPL (ESSPRO)	197	182	Hold	6,225	7.0	6.5	8.4	11.9	28.1	30.5	23.3	16.5	11.6	11.3	9.2	7.6	12.6	12.9	17.1	20.5	12.1	11.5	14.7	19.2
Time Techno (TIMTEC)	81	95	Hold	1,832	8.5	10.4	13.0	15.2	9.5	7.8	6.2	5.3	5.1	4.3	3.8	3.4	11.3	13.0	14.5	15.4	9.3	10.9	12.4	13.0
Moldtek Packaging (MOLPLA)	948	1,110	Hold	3,144	20.4	24.2	29.1	37.0	46.6	39.1	32.6	25.6	26.4	23.5	19.2	15.1	18.6	17.0	18.6	21.3	13.9	14.4	15.1	16.5

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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