

Focus on long term growth drivers...

Amber Enterprises witnessed a strong sales recovery in H2FY21 led by pent up demand for room air conditioners (RAC) and new customer additions in the component business. Despite a significant loss of sales in Q1, the company reached 75% of its pre-Covid level revenue in FY21. Amber's strategy for long term growth remains intact. It is focusing on 1) capacity building to get PLI benefits, 2) addition of new customers in FY22-23, 3) looking for technological tie ups to increase presence in central AC business (VRF, VRV), 4) focus on exports of components and 5) explore business opportunities in its mobility business (metro/AC rail coaches). However, we believe the current lockdown related disruptions in peak period would hit its Q1FY22 revenue and earnings. Hence, we revise our revenue, earnings estimate downward by 19%, 33%, respectively, for FY22E.

Strong recovery led by component, mobility business

In Q4FY21, consolidated revenue growth at ~22% YoY to ₹ 1598 crore was led by component & mobile application (CMA), RAC business with segment revenue growth of ~32% and 16% YoY, respectively. Amber has added six new clients post import ban of gas filled AC. Revenue contribution of CMA in Q4FY21 has increased to 40% from 37% in Q4FY20. The company sees strong revenue growth in CMA segments led by customer addition in the component business and strong order pipeline of Sidwal (₹ 350 crore order book by FY21). Further on the export front, Amber has received necessary approvals to export components to Middle East. The company is also expected to get necessary approvals in the next eight to 10 months to export components in US. The overall export opportunity for Amber would pan out in the next two to three years. We build revenue CAGR of 42% in FY21-23E led by 42%, 39% revenue CAGR in CMA, RAC business, respectively.

Price hikes, cost optimisation measure to safeguard margins

EBITDA margin in Q4FY21 increased ~110 bps YoY to 8.8% led by savings in employee & other costs. Price hikes to the tune of 10-12% in Q4FY21 and increased revenue contribution of CMA helped restrict gross margin fall to 80 bps YoY. The management guided for further price hike (of 2-3%) and continued cost savings measures to protect future EBITDA margin. We build in improvement in EBITDA margin from FY23 onwards (to 8.8% vs. 7.3% in FY21) led by better product mix and high operating leverage.

Valuation & Outlook

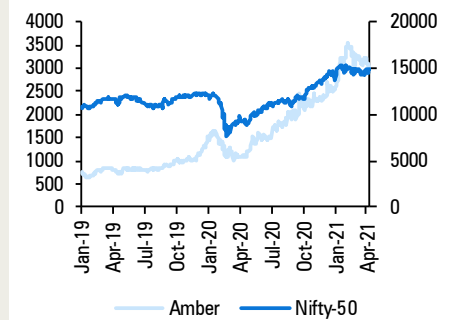
We continue to like Amber for its focus on acquiring new business opportunities either through government's Atmanirbhar scheme or shift in focus on China+1 strategy by key clients amid pandemic. We believe its strong balance sheet (D/E 0.2x) will help the company to sail through near term challenges. We reiterate our **BUY** recommendation on the stock with a revised target price of ₹ 3130 (earlier ₹ 3025) valuing at 35x FY23 earnings.



Particulars

Particular	Amount
Market Cap (₹ Crore)	8,584.9
Total Debt (FY21) (₹ Crore)	349.5
Cash & Inv (FY21) (₹ Crore)	290.0
EV (₹ Crore)	8,644.4
52 week H/L	3667/ 1196
Equity capital (₹ Crore)	31.4
Face value (₹)	10.0

Price Performance



Key risk to our call

- Extended lockdowns may delay volume recovery, going forward
- Price increase in key raw materials and delay in passing on the same

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22E	FY23E	(CAGR 21-23E)
Net sales	2752.0	3962.8	3030.5	4347.2	5980.5	40.5
EBITDA	212.9	309.3	220.3	321.7	529.3	55.0
EBITDA Margin(%)	7.7	7.8	7.3	7.4	8.8	
Net Profit	94.8	164.1	83.3	154.1	297.3	88.9
EPS (₹)	30.1	52.2	24.7	45.7	88.2	
P/E(x)	90.6	52.3	110.5	59.7	30.9	
RoE (%)	9.6	14.5	5.2	9.2	15.2	
RoCE (%)	12.3	14.3	7.7	11.5	18.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	1598.4	1315.2	21.5	764.7	109.0	Strong performance led by recovery in demand for RAC and new customer addition in the component business
Other Income	8.5	0.0	NM	9.0	-6	
Raw Material Exp	1344.9	1096.3	22.7	623.1	115.8	Slight dip in gross margin by 80 bps YoY mainly due to delay in passing on of raw material prices and change in product mix
Employee cost	29.7	30.6	-2.7	27.3	9.0	
Other Expenditure	82.6	86.4	-4.4	51.3	61.2	
Total Expenditure	1457.2	1213.3	20.1	701.7	107.7	
EBITDA	141.2	101.9	38.6	63.0	124.0	
EBITDA Margin (%)	8.8	7.7	109 bps	8.2	59 bps	Higher EBITDA margin came in on the back of saving in employee & other costs
Depreciation	22.7	22.0	3.6	23.5	-3.3	
Interest	10.5	9.8	6.4	8.6	21.6	
Exceptional items						
PBT	116.4	70.1	66.1	39.9	LP	
Total Tax	40.0	7.3	NM	12.0	233.3	
PAT	76.5	62.8	21.7	27.9	174.3	PAT growth was a combination of sales growth, higher other income and EBITDA margin in Q4FY21

Key Metrics

RAC	959.0	829.0	15.7	413.0	132.2	Favourable base and strong demand for RAC from tier II, III cities drove RAC sales in Q4FY21
Component & Mobile Applications	639.4	486.2	31.5	351.7	81.8	Recovery in non AC component business was faster compared to AC business led by addition of new customers

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ crore)	FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	5,375.8	4,347.2	(19.1)	6,695.2	5,980.5	(10.7)	We revise our revenue estimate downward for FY22E-23E considering lockdown in Q1FY22
EBITDA	440.8	321.7	(27.0)	582.5	529.3	(9.1)	
EBITDA Margin (%)	8.2	7.4	-80bps	8.7	8.8	15bps	We revise our margin estimate downward for FY22E considering low operating leverage
PAT	229.5	154.1	(32.9)	328.7	297.3	(9.6)	
EPS (₹)	68.2	45.7	(32.9)	97.6	88.2	(9.6)	

Source: Company, ICICI Direct Research; * increased no. of shares due to QIP

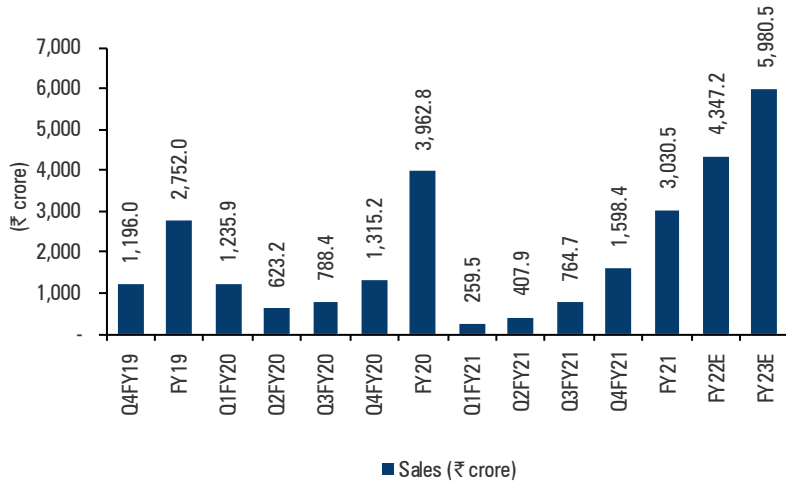
Exhibit 3: Assumptions

Current (%)	Current				Earlier			Comments
	FY20	FY21	FY22E	FY23E	FY21E	FY22E	FY23E	
RAC	39.9	(30.8)	47.1	38.1	(18.8)	67.3	24.7	We believe favourable base and incremental business opportunity due to import ban on RAC would help drive RAC revenue at 39% CAGR in FY21-23E
Component & Mobile Applications	51.0	(17.0)	47.2	36.9	(13.6)	58.7	24.2	A favourable base, healthy order book of Sidwal and client additions in the component business will help drive cement revenue CAGR at ~42% in FY21-23E

Source: Company, ICICI Direct Research

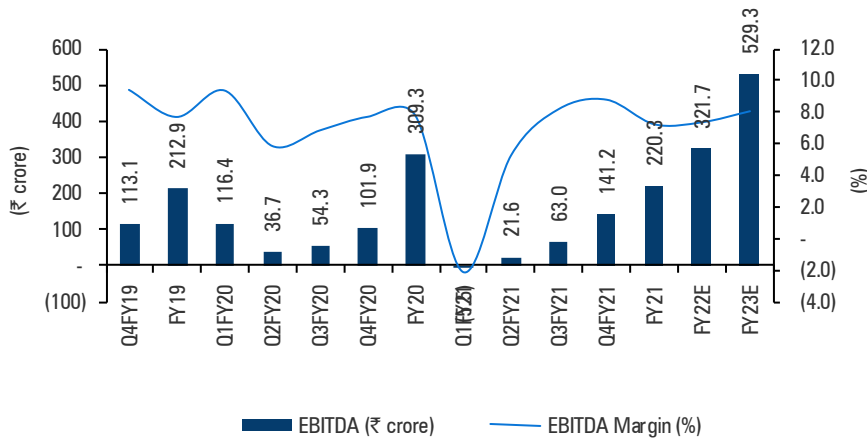
Financial story in charts

Exhibit 4: Gradual recovery in revenue from H2FY22E



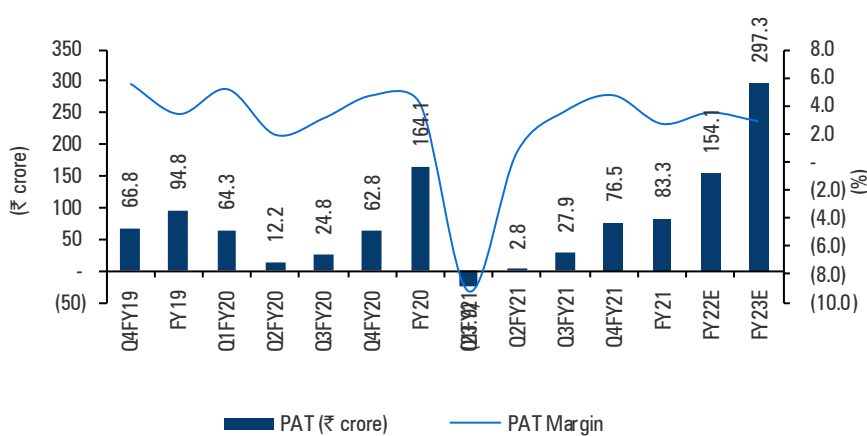
Source: Company, ICICI Direct Research

Exhibit 5: Better plant utilisation, going forward, to help drive margins



Source: Company, ICICI Direct Research

Exhibit 6: Recovery in sales, margin to drive PAT



Source: Company, ICICI Direct Research

Conference call highlights

- Strong sales growth in Q4FY21 in anticipation of a strong summer. AC volume for Amber in FY21 is 2.1 million (mn) (compared to industry volume of 5.8 mn) while gas charging is separate
- Per unit (RAC) gross margin has remained intact. Its product mix changed while a slight delay in passing on raw material prices slightly impacted gross margins in Q4FY21
- Growth momentum disturbed on second wave in April-May 2021
- RAC factories are running at utilisation level of 40-45%
- The current price hikes cover most commodity inflation as most players are sitting on inventories at old cost. Further price action will be taken post Q2FY22
- The RAC inventory level is better compared to last year as the industry is anticipating some disruptions due to Covid-19
- Work from home is one of the major drivers of faster inventory liquidation post easing in lockdown restrictions
- Two upcoming facilities are in Pune and south region. Pune facility will start operations by Q4FY22. The company has shortlisted land in South India. The land acquisition process will complete in the next month or two while construction work will start thereafter
- PICL revenues (₹ 131 crore FY21) are expected to double in the next two to three years under PLI scheme. Margins are also expected to improve
- Sidwal's order book remains strong at ₹ 350 crore. It is well placed to benefit from government capex on new metro lines in 26 cities (which means more metro AC coaches, going forward)
- The company is expected to expand VRV and VRF product ranges. It is also looking at partnerships for higher end products
- Amber is confident of becoming a complete sourcing partner of six new customers (that are sourcing only gas refilling services from Amber as of now) in a year or two. These players have substantial RAC market shares
- Government impetus to ban import of air conditioners provides a long term growth opportunity for Amber. The company has signed six new customers for gas refilling works
- Government has increased import duty on compressor to 15% (from 7.5% two years back), on finished goods from 10% to 20% in Budget FY22. This augurs well for component manufacturers like Amber
- The PLI scheme has been classified into three categories i.e. 1) AC components (high end components), 2) high value intermediaries (copper tubes, aluminium foil and compressors) and 3) low value intermediaries (PCB assemblies, BLDC motors, service valves and cross flow fans for AC and other components). The fine-tuned version of PLI documents are expected in the next one month
- PLI scheme would provide 4-6% incentive for the manufacturing and export of components for five years. This will boost localisation from currently 25% to 75% in the next five years
- The company has guided that the government may also consider heat exchanger, injection moulding and sheet metal works
- Amber is already into low value intermediaries' manufacturing PCBs and motors. It is exploring more opportunities in the upper scale of the schemes and searching for right partners
- On the export side, the companies have received all clearances to supply motors in the Middle East while the approval of clients in the US will take another 10 months
- The capex of ₹ 300-350 crore for the next two years and future expansion would largely be funded through internal accruals

Financial summary

Exhibit 7: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Revenue	3,962.8	3,030.5	4,347.2	5,980.5
Growth (%)	44.0	-23.5	43.4	37.6
Expenses				
Raw material expens	3,324.7	2,529.0	3,695.1	5,035.6
Employee expenses	106.3	102.1	104.3	116.6
Other expenses	245.5	194.7	226.1	299.0
Total Operating Exp	3,653.5	2,810.2	4,025.5	5,451.2
EBITDA	309.3	220.3	321.7	529.3
Growth (%)	45.3	-28.8	46.0	64.5
Depreciation	84.8	92.3	88.7	113.6
Interest	41.9	41.0	35.7	30.2
Other Income	8.2	33.1	8.7	12.0
PBT	190.7	120.1	206.0	397.4
Total Tax	26.6	36.9	51.9	100.1
PAT	164.1	83.3	154.1	297.3

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	164.1	83.3	154.1	297.3
Add: Depreciation	84.8	92.3	88.7	113.6
(Inc)/dec in Current Assets	-176.3	-237.7	-452.2	-460.5
Inc/(dec) in CL and Provisions	211.5	227.9	188.5	387.4
Others	41.9	41.0	35.7	30.2
CF from operating activities	326.1	206.7	14.8	368.0
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-303.9	-162.0	-150.0	-150.0
Others	27.4	-255.5	62.2	-56.9
CF from investing activities	-276.5	-417.5	-87.8	-206.9
Issue/(Buy back) of Equity	0.0	2.2	0.0	0.0
Inc/(dec) in loan funds	89.8	29.0	-50.0	-50.0
Dividend paid & dividend tax	-12.1	-4.0	-8.1	-8.1
Others	-51.7	353.3	-115.5	-30.2
CF from financing activities	26.0	380.4	-173.6	-88.3
Net Cash flow	75.6	169.7	-246.6	72.8
Opening Cash	44.7	120.3	290.0	43.3
Closing Cash	120.3	290.0	43.3	116.1

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	31.4	33.7	33.7	33.7
Reserve and Surplus	1,097.0	1,570.4	1,636.6	1,925.8
Total Shareholders funds	1,128.4	1,604.1	1,670.3	1,959.5
Total Debt	320.5	349.5	299.5	249.5
Other non current liabilities	178.0	129.1	129.1	129.1
Total Liabilities	1,626.9	2,082.7	2,098.9	2,338.1
Assets				
Gross Block	1,357.2	1,493.6	1,643.6	1,793.6
Less: Acc Depreciation	365.0	457.3	546.0	659.7
Total Fixed Assets	995.3	1,065.0	1,126.3	1,162.7
Goodwill	122.3	122.3	122.3	122.3
Inventory	655.7	716.3	893.3	1,146.9
Debtors	854.2	1,069.0	1,310.1	1,474.6
Loans and Advances	29.3	32.1	46.1	63.4
Other CA	86.8	46.3	66.5	91.5
Cash	120.3	290.0	43.3	116.1
Total Current Assets	1,746.3	2,153.7	2,359.3	2,892.6
Creditors	1,106.8	1,316.9	1,429.2	1,720.4
Provisions	12.8	14.1	15.3	18.5
Other CL	156.4	172.8	247.8	340.9
Total Current Liabilities	1,275.9	1,503.8	1,692.4	2,079.8
Net current assets	470.4	649.9	666.9	812.8
Other non current assets	38.9	245.6	183.4	240.3
Total Assets	1,626.9	2,082.7	2,098.9	2,338.1

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	52.2	24.7	45.7	88.2
Cash EPS	79.2	52.1	72.1	121.9
BV	358.8	476.1	495.7	581.6
DPS	3.8	1.2	2.4	2.4
Operating Ratios (%)				
EBITDA Margin	7.8	7.3	7.4	8.8
PAT Margin	4.1	2.7	3.5	5.0
Asset Turnover	2.9	2.0	2.6	3.3
Inventory Days	60.4	86.3	75.0	70.0
Debtor Days	78.7	128.8	110.0	90.0
Creditor Days	101.9	158.6	120.0	105.0
Return Ratios (%)				
RoE	14.5	5.2	9.2	15.2
RoCE	14.3	7.7	11.5	18.3
RoIC	15.0	8.2	11.8	19.1
Valuation Ratios (x)				
P/E	52.3	110.5	59.7	30.9
EV / EBITDA	28.4	38.8	27.5	16.5
EV / Net Sales	2.2	2.8	2.0	1.5
Market Cap / Sales	2.2	2.8	2.0	1.4
Price to Book Value	7.6	5.7	5.5	4.7
Solvency Ratios				
Debt / Equity	0.3	0.2	0.2	0.1
Current Ratio	1.5	1.4	1.6	1.6
Quick Ratio	0.9	0.9	1.0	0.9

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,774	2,970	Buy	2,66,027	33.4	36.7	45.4	83.0	75.5	61.1	49.6	45.4	36.8	25.0	26.2	28.0	29.6	30.8	33.5
Astral Polytechnic (ASTPOL)	1,787	1,915	Hold	26,923	20.3	21.8	29.3	87.9	82.1	61.1	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9
Amber Enterprises (AMBEN)	2,730	3,130	Buy	8,585	24.7	45.7	88.2	110.5	59.7	30.9	38.8	27.5	16.5	7.7	11.5	18.3	5.2	9.2	15.2
Bajaj Electricals (BAJELE)	1,080	1,280	Buy	12,279	16.5	23.8	35.7	64.9	45.0	30.0	40.9	29.6	20.7	15.1	20.0	26.1	10.7	16.8	20.6
Berger Paints (BERPAI)	752	810	Hold	73,034	7.6	9.7	12.4	98.9	77.3	60.8	63.9	52.3	42.5	26.1	30.0	35.1	23.4	26.0	29.0
Crompton Greaves(CROGR)	398	480	Buy	24,955	9.8	9.2	11.9	40.5	43.5	33.5	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Dixon Technologies (DIXTEC)	3,954	4,270	Buy	21,200	29.6	62.8	93.9	122.4	57.7	38.6	95.1	70.2	38.1	26.3	40.1	43.9	25.4	37.6	38.6
EPL (ESSPRO)	232	250	Hold	7,320	7.8	8.9	10.8	29.6	26.0	21.5	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0
Havells India (HAVIND)	1,031	1,255	Buy	64,324	16.7	16.7	22.0	61.9	61.6	46.8	40.1	40.8	31.3	24.9	24.0	30.0	20.1	19.5	24.4
Kansai Nerolac (KANNER)	556	655	Buy	29,964	9.9	12.1	14.4	56.4	45.9	38.6	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Moldtek Packaging (MOLP)	464	600	Buy	1,286	16.5	20.8	28.0	28.2	22.3	16.6	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1
Pidilite Industries (PIDIND)	1,888	2,035	Hold	95,873	22.2	26.3	31.8	85.1	71.8	59.4	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Polycab India (POLI)	1,599	1,385	Buy	23,806	57.9	67.2	79.7	27.6	23.8	20.1	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	2,122	2,390	Hold	26,955	77.0	64.9	72.4	27.6	32.7	29.3	20.5	22.2	19.6	32.7	26.2	25.2	30.9	23.6	22.6
Symphony (SYMLIM)	1,059	1,345	Hold	7,408	15.3	28.5	39.5	69.2	37.2	26.8	60.0	33.1	23.8	15.2	28.2	34.9	14.9	26.8	32.5
Time Techno (TIMTEC)	79	75	Buy	1,787	4.4	9.6	-	17.9	8.2		5.7	3.8		8.4	13.7		5.5	11.2	
V-Guard Ind (VGUARD)	221	265	Buy	9,465	4.2	6.1	7.1	52.2	36.4	31.2	34.8	26.2	22.4	23.6	27.9	29.0	16.8	21.1	21.9
Voltas Ltd (VOLTAS)	1,027	1,150	Buy	33,966	16.0	21.2	28.9	64.2	48.6	35.5	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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