

Growth boosters: PLI, import ban, changing lifestyle

Amber Enterprises, one of the largest contract manufacturers of room air conditioners (RAC) is one of the biggest beneficiaries of the government's production linked incentive (PLI) schemes and import ban of finished room AC (RAC) in India. Amber is the key supplier to all top 10 AC brands and commands ~24% volume market share of ACs sold in India in FY20. We believe, after a washout H1FY21, the company may witness a strong recovery in H2FY21 supported by normalised inventory at dealer level coupled with robust pent up demand of RACs amid changing consumer lifestyle (work from home) post pandemic. In addition, the import restrictions on RAC and its components present business opportunity of ~₹ 10,000 crore for Amber. Also, India's AC export market share may cross ₹ 27,000 crore in the next 10 years (from mere ₹ 450 crore in FY19), hence also benefitting it. Therefore, we see significant business opportunities for Amber in the years to come. Considering a long term structural growth story for RAC contract manufacturing in India, we believe revenues and PAT may witness a CAGR of 19% and ~23% in FY20-23E, respectively.

Well diversified revenue stream

Over the past three years, Amber's share of component & mobility revenues has increased from 28% to 39% supported by strong demand of RAC components and acquisition of Sidwal (51% market share in mobility applications such as roof mounted packaged units for Indian Railways and Metro). Through the component business, Amber not only managed to increase wallet share from its existing clients but this also helped it to add new clientele in the last three years. Strong backward integration along with acquisition of new clients helped the company to gain market share in the overall RAC industry from 14.7% in FY15 to 24% in FY20. Hence, we model revenue CAGR of 19% in FY20-23E led by similar growth in the RAC and component & mobility business.

Improved product mix help drive margin, going forward

The component and mobility business commands higher margin than the company's overall margin. We believe increasing mix of components and mobility business in topline would keep EBITDA margins elevated.

Valuation & Outlook

We believe China+1 strategy by key clients coupled with market leadership position in the domestic RAC OEM/ODM industry creates a significant growth opportunity for Amber, going forward. Despite capital intensive business, the D/E remained low at 0.3x supported by efficient working capital management (~12% sales) and RoE & RoCE of ~15% each. We roll over our valuation on FY23E and reiterate our **BUY** rating on the stock with a revised target price of ₹ 2830/share (valuing 31xFY23E earnings).

Key Financial Summary

₹ Crore	FY19	FY20E	FY21E	FY22E	FY23E	(CAGR 20-23E)
Net sales	2752.0	3962.8	3297.4	5402.7	6727.5	19.3
EBITDA	212.9	309.3	211.0	470.0	565.1	22.3
EBITDA Margin(%)	7.7	7.8	6.4	8.7	8.4	
Net Profit	94.8	164.1	79.9	253.0	303.4	22.7
EPS (₹)	30.1	52.2	23.7	75.1	90.0	
P/E(x)	78.1	45.1	99.3	31.4	26.2	
RoE (%)	9.6	14.5	5.3	14.3	14.7	
RoCE (%)	12.3	14.3	7.2	17.0	17.8	

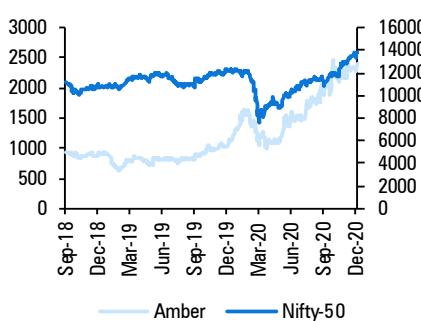
Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Cap (₹ Crore)	7,405.7
Total Debt (FY20) (₹ Crore)	320.5
Cash & Inv (FY20) (₹ Crore)	120.3
EV (₹ Crore)	7,605.9
52 week H/L	2544/ 921
Equity capital (₹ Crore)	31.4
Face value (₹)	10.0

Price performance



Risk to our call

1. Seasonality factor may adversely impact performance
2. Pricing pressure from customers may adversely impact gross margin, profitability

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Exhibit 1: Change in estimates

₹ crore)	FY21E			FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Revenue	3,297.4	3,297.4	-	5,402.7	5,402.7	-	6,727.5	6,727.5	-	No change
EBITDA	211.0	211.0	-	470.0	470.0	-	565.1	565.1	-	
EBITDA Margin (%)	6.4	6.4	0bps	8.7	8.7	0bps	8.4	8.4	0bps	
PAT	79.9	79.9	-	253.0	253.0	-	303.4	303.4	-	
EPS (₹)*	23.7	23.7	-	75.1	75.1	-	90.0	90.0	-	

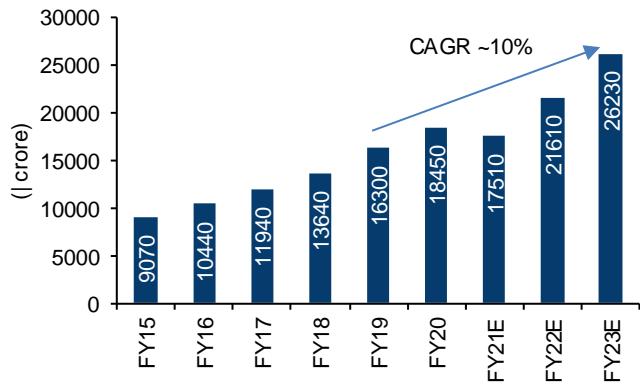
Source: Company, ICICI Direct Research, *includes fresh equity shares issued through QIP

Exhibit 2: Assumptions

()%	Current			Earlier			Comments	
	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
RAC	39.9	(18.8)	67.3	24.7	(18.8)	67.3	24.7	We believe incremental business opportunity due to import ban on RAC would help drive RAC revenue at CAGR of ~19% in FY20-23E
Component & Mobile Applications	51.0	(13.6)	58.7	24.2	(13.6)	58.7	24.2	Intact business for Sidwal, coupled with increased wallet share from existing customers would help drive revenue at CAGR of ~19% in FY20-23E for component and mobile application business

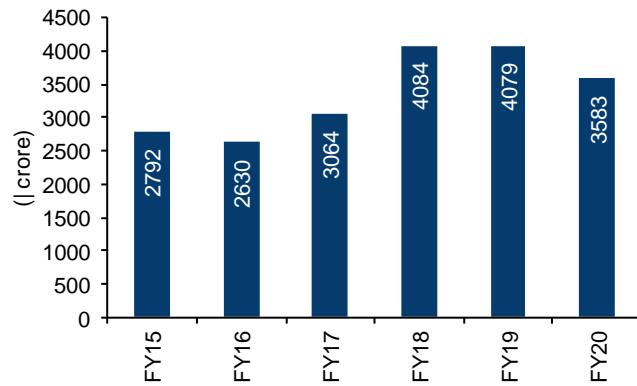
Source: Company, ICICI Direct Research

Exhibit 3: Domestic room AC growth trend



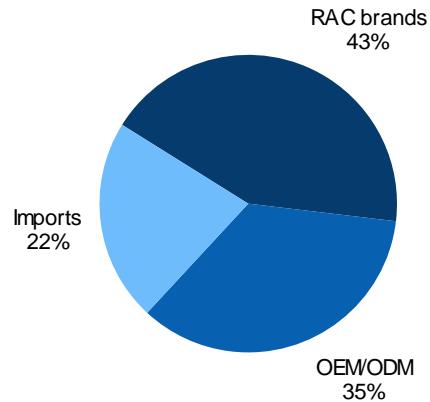
Source: Company, ICICI Direct Research

Exhibit 4: India imports of finished RAC



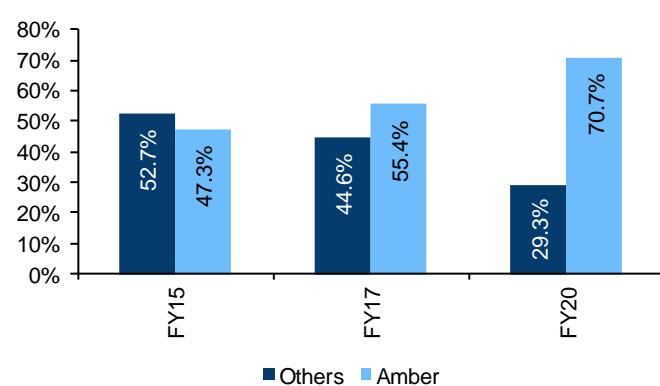
Source: DGFT, ICICI Direct Research

Exhibit 5: AC manufacturing Vs outsourcing mix (by volume)



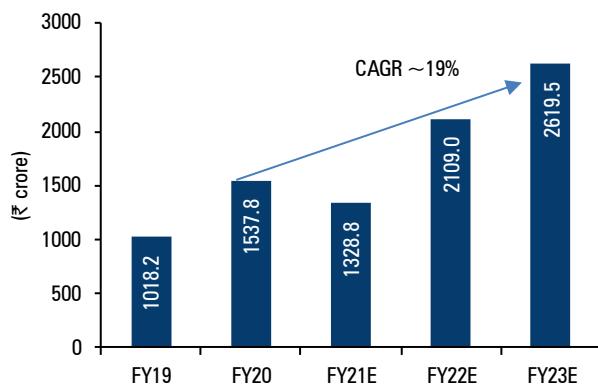
Source: Company, ICICI Direct Research

Exhibit 6: Amber's volume share in OEM/ODM industry



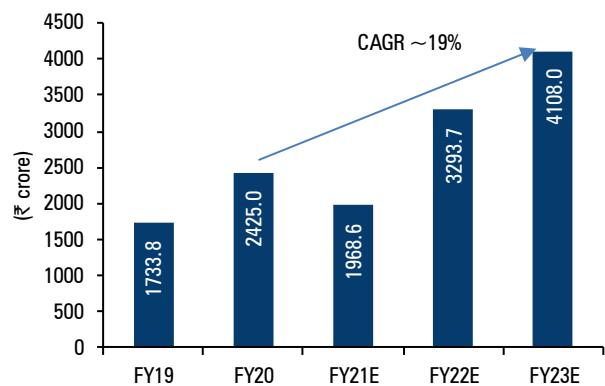
Source: Company, ICICI Direct Research

Exhibit 7: Amber's RAC division growth trend



Source: Company, ICICI Direct Research

Exhibit 8: Component & mobility division growth trend



Source: Company, ICICI Direct Research

Financial summary

Profit and loss statement				₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue	3,962.8	3,297.4	5,402.7	6,727.5
Growth (%)	44.0	-16.8	63.8	24.5
Expenses				
Raw material expens	3,324.7	2,736.8	4,473.4	5,570.3
Employee expenses	106.3	102.2	135.1	161.5
Other expenses	245.5	247.3	324.2	430.6
Total Operating Exp	3,653.5	3,086.4	4,932.6	6,162.4
EBITDA	309.3	211.0	470.0	565.1
Growth (%)	45.3	-31.8	122.7	20.2
Depreciation	84.8	94.0	118.9	154.7
Interest	41.9	41.4	23.7	18.2
Other Income	8.2	23.1	10.8	13.5
PBT	190.7	98.7	338.3	405.6
Total Tax	26.6	18.8	85.2	102.2
PAT	164.1	79.9	253.0	303.4
Growth (%)	73.2	-51.3	216.5	19.9
EPS (₹)	52.2	23.7	75.1	90.0

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	164.1	79.9	253.0	303.4
Add: Depreciation	84.8	94.0	118.9	154.7
(Inc)/dec in Current Assets	-176.3	-277.4	-623.2	-619.6
Inc/(dec) in CL and Provisions	211.5	-49.2	558.6	437.8
Others	41.9	41.4	23.7	18.2
CF from operating activities	326.1	-111.3	331.0	294.6
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-303.9	-100.0	-210.0	-270.0
Others	27.4	0.2	-1.3	-0.8
CF from investing activities	-276.5	-99.8	-211.3	-270.8
Issue/(Buy back) of Equity	0.0	2.2	0.0	0.0
Inc/(dec) in loan funds	89.8	-80.0	-50.0	-50.0
Dividend paid & dividend tax	-12.1	-4.0	-8.1	-8.1
Others	-51.7	273.0	-23.7	-18.2
CF from financing activities	26.0	191.2	-81.8	-76.3
Net Cash flow	75.6	-19.9	37.9	-52.6
Opening Cash	44.7	120.3	100.4	138.3
Closing Cash	120.3	100.4	138.3	85.7

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	31.4	33.7	33.7	33.7
Reserve and Surplus	1,097.0	1,487.3	1,732.2	2,027.5
Total Shareholders funds	1,128.4	1,521.0	1,765.9	2,061.2
Total Debt	320.5	240.5	190.5	140.5
Other non current liabilities	178.0	178.0	178.0	178.0
Total Liabilities	1,626.9	1,939.5	2,134.4	2,379.7
Assets				
Gross Block	1,357.2	1,457.2	1,667.2	1,937.2
Less: Acc Depreciation	365.0	459.0	577.9	732.6
Total Fixed Assets	995.3	1,001.3	1,092.5	1,207.8
Goodwill	122.3	122.3	122.3	122.3
Inventory	655.7	722.7	1,036.1	1,290.2
Debtors	854.2	1,084.1	1,332.2	1,658.8
Loans and Advances	29.3	24.4	40.0	49.8
Other CA	86.8	72.2	118.4	147.4
Cash	120.3	100.4	138.3	85.7
Total Current Assets	1,746.3	2,003.9	2,664.9	3,231.9
Creditors	1,106.8	1,084.1	1,554.2	1,935.3
Provisions	12.8	12.5	17.9	22.3
Other CL	156.4	130.1	213.2	265.5
Total Current Liabilities	1,275.9	1,226.7	1,785.3	2,223.1
Net current assets	470.4	777.2	879.6	1,008.8
Other non current assets	38.9	38.7	40.0	40.9
Total Assets	1,626.9	1,939.5	2,134.4	2,379.7

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	52.2	23.7	75.1	90.0
Cash EPS	79.2	51.6	110.4	136.0
BV	358.8	451.4	524.1	611.8
DPS	3.8	1.2	2.4	2.4
Operating Ratios (%)				
EBITDA Margin	7.8	6.4	8.7	8.4
PAT Margin	4.1	2.4	4.7	4.5
Asset Turnover	2.9	2.3	3.2	3.5
Inventory Days	60.4	80.0	70.0	70.0
Debtor Days	78.7	120.0	90.0	90.0
Creditor Days	101.9	120.0	105.0	105.0
Return Ratios (%)				
RoE	14.5	5.3	14.3	14.7
RoCE	14.3	7.2	17.0	17.8
RoIC	15.0	6.5	17.2	17.1
Valuation Ratios (x)				
P/E	45.1	99.3	31.4	26.2
EV / EBITDA	24.6	35.8	15.9	13.2
EV / Net Sales	1.9	2.3	1.4	1.1
Market Cap / Sales	1.9	2.2	1.4	1.1
Price to Book Value	6.6	5.2	4.5	3.8
Solvency Ratios				
Debt / Equity	0.3	0.2	0.1	0.1
Current Ratio	1.5	1.7	1.6	1.6
Quick Ratio	0.9	1.1	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap		EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	
Asian Paints (ASIPAI)	2,716	2,440	Buy	2,60,464	29.0	35.9	41.9	93.7	75.7	64.8	45.8	37.4	31.9	24.2	27.3	27.9	28.1	31.7	33.1	
Astral Polytechnik (ASTPOL)	1,684	1,260	Hold	25,371	20.7	25.5	27.8	81.2	66.1	60.6	41.8	35.8	33.1	22.3	24.5	24.1	17.3	19.1	18.6	
Amber Enterprises (AMBEN)	2,355	2,830	Buy	7,406	23.7	75.1	90.0	99.3	31.4	26.2	35.8	15.9	13.2	7.2	17.0	17.8	5.3	14.3	14.7	
Bajaj Electricals (BAJELE)	611	585	Buy	6,946	11.8	17.1	23.0	NM	35.8	26.5	26.3	20.2	15.9	10.8	14.7	18.6	8.3	13.0	15.4	
Berger Paints (BERPAI)	750	675	Hold	72,840	7.8	9.7	11.7	96.4	77.7	63.8	60.3	50.8	43.0	26.9	30.3	34.0	23.8	25.7	27.9	
Crompton Greaves(CROGR)	360	440	Buy	22,572	8.3	10.2	11.6	43.2	35.4	31.2	31.6	26.2	23.6	32.2	36.1	38.9	28.4	29.4	30.3	
EPL (ESSPRO)	254	280	Hold	8,014	8.0	8.9	11.2	31.6	28.4	22.7	13.0	12.3	10.3	18.7	18.7	21.2	16.0	15.6	17.4	
Havells India (HAVIND)	906	835	Buy	56,525	14.1	16.4	20.1	64.0	55.3	45.0	40.5	35.2	29.1	21.5	24.4	28.9	18.5	20.3	24.3	
Kansai Nerolac (KANNER)	599	605	Buy	32,281	10.3	12.0	14.0	58.4	49.7	42.8	36.4	32.1	27.9	18.4	19.6	20.5	14.3	15.1	15.7	
Pidilite Industries (PIDIND)	1,764	1,850	Buy	89,576	22.7	27.8	31.9	77.8	63.5	55.3	55.0	45.3	36.1	28.2	30.9	31.6	23.2	24.9	25.3	
Polycab India (POLI)	1,039	1,040	Buy	15,469	58.1	62.9	74.4	17.9	16.5	14.0	13.3	11.3	9.2	21.4	23.2	25.1	18.2	18.0	19.2	
Supreme Indus (SUPIND)	1,653	1,695	Buy	20,998	44.9	47.8	54.9	36.8	34.6	30.1	22.7	21.9	18.2	23.3	22.5	24.3	22.3	21.2	21.6	
Symphony (SYMLIM)	1,011	960	Buy	7,073	17.3	29.1	37.7	58.4	34.7	26.8	43.5	27.8	21.5	22.2	35.7	44.2	21.1	34.3	40.7	
Time Techno (TIMTEC)	48	43	Hold	1,086	7.5	4.0	9.1	6.4	12.0	5.3	3.1	4.3	2.8	12.5	8.0	13.2	9.3	5.0	10.7	
V-Guard Ind (VGUARD)	186	210	Buy	7,966	3.7	5.3	6.2	50.5	35.0	29.9	34.5	25.4	21.6	20.1	25.3	26.9	15.1	19.5	20.8	
Volta's Ltd (VOLTAS)	814	845	Hold	26,922	12.3	22.6	29.8	66.2	36.0	27.3	57.7	31.1	25.2	12.8	20.1	21.9	9.1	15.3	17.5	

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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