



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Amber Enterprises Ltd Q2 FY23 consolidated revenues came in at ₹750 Cr, up by 27.7% YoY and down by 58.89% QoQ.
- Op Profit for Q2FY23 stood at ₹36.67 Cr, up by 6.87% YoY.
- Op margins for Q2FY23 came at 4.89%, -95bps YoY and -55bps QoQ.
- Net Loss for Q2FY23 stood at ₹-2.29Cr.

2. MANAGEMENT COMMENTARY:

- Room Air Conditioner industry witnessed a dull period from July 22 to mid-September 22 due to BEE rating change in July 22. Untimely rains in the month of August 22 and September 22 also affected the business.
- Mobility, motors and electronics division witnessed good growth owing to addition of new customers, products and new geographies.
- Management expects industry to touch 8.5 million units this year and then grow at a CAGR of 12%-15% from next year onwards.

3. CONCALL SUMMARY

- Revenue saw a sharp decline due to channel destocking owing to change in BEE star rating change.
- Company plans to incur INR 600 crore capex in FY23. New Greenfield facility i.e. Sricity will be operational by Q3FY23.
- Management has given more than 30% growth guidance for FY23 on the back of strong order book, new products and geographical expansion.
- Company has started delivering smart wearable and hearable to boAt and have also added few new customers in this segment.
- Finance cost has increased to INR 24 cr from INR 6 cr in Q2FY22 due to increase in capex and rise in interest cost.
- Management is confident of improving ROCE by 200 bps to 300 bps in FY23 and further expansion of 300 bps in FY24.

4. OTHER DEVELOPMENTS:

- Company aims to maintain their market share at 26% and above in RAC segment.
- It expects to receive the PLI (Production Linked Incentive) scheme benefit for the first year. In FY23, it expects to get a benefit of ₹15 crore and ₹20 crore in FY24.

5. VALUATION AND OUTLOOK:

We believe company will continue to post good results in the coming few quarters on the back of seasonal demand. Margins are also expected to improve as the company has successfully passed on the increase in commodity prices.

Management is confident of increasing their ROCE to 17%-20% in the next 2-3 years. Component division is expected to drive future growth of the company. New acquisitions and expectations of large export orders next year will reap benefits for the company.

We give a “BUY” rating on the stock and value the stock at 35x of FY24E earnings to arrive at a target price of Rs.2350.

RECOMMENDATION - BUY

CMP – 2009
TARGET – 2350
(Upside 17%)

Industry	Air Conditioners
NSE CODE	AMBER
BSE CODE	540902
Market Cap (₹ Cr)	6812.54
Shares Outstanding (in Cr)	3.37
52 wk High/Low (₹)	4025.95 / 1920
P/E	53.06
P/BV	3.81
Face Value (₹)	10.00
Book Value (₹)	531.04
EPS (FY22) (₹)	32.41
Dividend Yield (%)	0.00
Debt / Equity	0.62
Interest Coverage	4.23

SHAREHOLDING PATTERN

	Sept 22	June 22	Mar 22
Promoters	40.31	40.31	40.27
MF/ DII	8.57	8.76	9.18
FII/FPI	26.44	26.88	28.11
Retail & Others	19.36	24.05	22.44
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2022A	2023E	2024E
Crore			
Sales	4206	5465	6831
Sales Gr. (%)		30	25
EBITDA	275	327.9	478.18
EBITDA %	7	6	7
PAT	111	115	226
EPS (₹)	32.41	34.25	67.13
EPS Gr. (%)	33.81	5.67	96
BV/Sh. (₹)	510	520	556

Ratios

RoE (%)	6.7	6.57	12
RoCE (%)	8.41	9.56	14

Valuation

P/E (x)	108.8	58.65	30
P/BV (x)	6.91	3.86	3.61

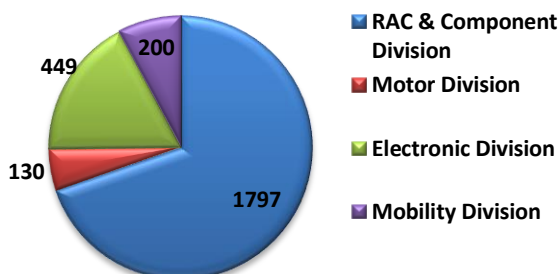
Historical & Industrial Val Ratios

Historical P/E	53.06
Industry P/E	26.42
Historical P/B	3.81
Industry P/B	5.02



REVENUE SPLIT (H1FY23)

Revenue split H1FY23



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY21		FY22		FY23				FY22	FY23E*
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3E*		
Net sales	1598.43	707.93	587.48	974.29	1936.7	1825.73	750.44	980	4206	5465
YoY change (%)	21.54%	172.86%	44.01%	27.41%	21.16%	157.90%	27.74%	0.58	38.80%	30%
Total Expenditures	1457.24	665.76	553.17	900.67	1811.40	1726.48	713.77	921.2	3927	5137.1
EBITDA	141.19	42.17	34.31	73.62	125.29	99.25	36.67	58.8	280	327.9
Margins (%)	8.83%	5.96%	5.84%	7.56%	6.47%	5.44%	4.89%	6.00%	7%	6%
Depreciation	22.74	24.36	26.23	27.08	30.24	32.15	31.81	31	108	120
Interest	10.46	9.15	6.40	12.32	18.57	21.08	24.36	22	48	88
Other income	8.46	7.10	8.14	8.62	9.38	12.85	12.18	12	30	45
PBT	116.45	15.76	9.82	42.84	85.86	58.87	-7.32	17.8	154	164.9
Rate (%)	34.32%	29.00%	19.55%	23.11%	30.93%	27.13%	68.58%	28%	28%	30%
Adjusted PAT	76.48	11.20	7.89	32.94	59.31	42.89	-2.29	12.81	111	115.43
EPS in Rs	22.40	3.69	2.21	9.53	16.98	12.48	-0.88	3.80	32.41	34.25

Key Performance Indicators

RM cost (% of revenue)	84%	83%	81%	82%	86%	86%	79%	78%	84%	80%
Employee cost (% of revenue)	2%	5%	6%	4%	2%	3%	6%	6%	4%	6%
EBITDA Margins%	8.83%	5.96%	5.84%	7.56%	6.47%	5.44%	4.89%	6%	7%	6%
PAT Margins %	4.78%	1.58%	1.34%	3.38%	3.08%	2.34%	-	1.30%	2.63%	2.11%

Source: Company, Hem Securities Research.

*Insights into the assumptions:

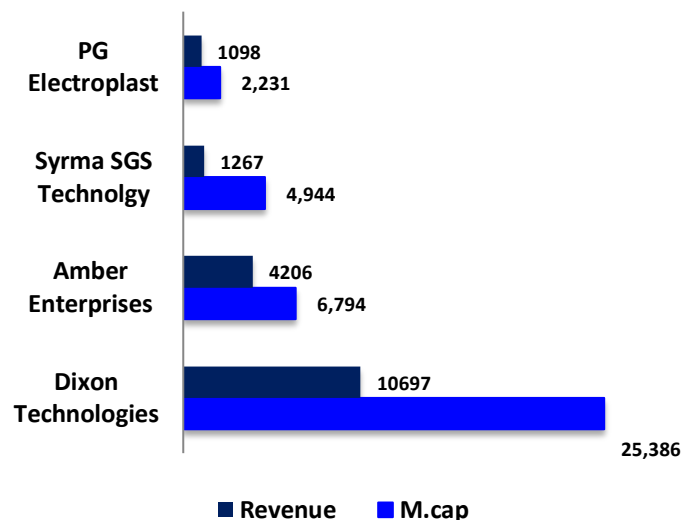
- We expect revenues to remain in line or improve slightly on YoY basis.
- Operating margins are expected to improve as company has successfully passed on the increase in prices in Q2FY23.



INDUSTRY OVERVIEW

- The India Room Air Conditioner Market is projected to grow at a CAGR of 14% to 15% between 2020-2026.
- The RAC penetration in Indian households is very low and stands at approx. 7% compared to other major economies of the world. The RAC penetration in Malaysia stands at 91% whereas in China it is at 53%. This presents ample opportunity for OEM businesses in India.
- Replacement demand is going to play a critical role as it has been witnessed that people are replacing window RACs with split. This trend is expected to continue.
- In the last few years, Government of India has increased import duty on completely build units and components to boost domestic manufacturing. In the union budget 2021-22 import duty on RAC compressors has been increased to 15%.
- In order to create component ecosystem within the country government has approved PLI scheme for air conditioners and LEDs. The scheme of air conditioner will provide an incentive of 4%-6% on incremental sale of AC components manufactured in India over a period of 5 years. Expansion in domestic component ecosystem will increase domestic value addition from current 25% to 75% in the next 5 years

KEY PLAYERS IN OEM/ODM SPACE



PEER PERFORMANCE

(₹ Cr)

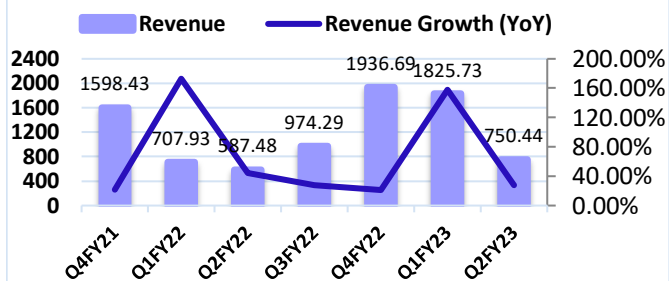
Particulars	Amber Enterprises	Dixon Technologies	Syrma SGS Technologies	PG Electroplast
Market Cap	6,812.5	25,799.4	4,942.7	2,181.3
Net Sales	4,206.4	10,697.1	1,019.7	1,097.7
EBITDA	276.8	384.3	96.6	70.5
PAT	109.2	190.2	55.5	37.4
EPS(₹)	32.4	32.0	4.0	17.6
EBITDA MARGIN %	7.4	3.6	10.7	8.4
PAT MARGIN %	2.6	1.8	5.3	3.4
ROCE %	8.4	25.9	16.9	13.3
ROE %	6.7	22.2	13.4	14.9
P/E TTM	53.1	111.1	89.0	38.4
P/B TTM	3.8	23.2	3.4	6.5
Dividend Yield %	-	-	-	-
MCap/ Sales TTM	1.2	2.0	4.8	1.3

Source: Company, Hem Securities Research.

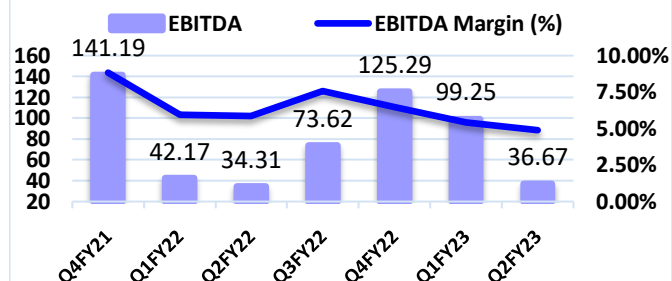


STORY IN CHARTS

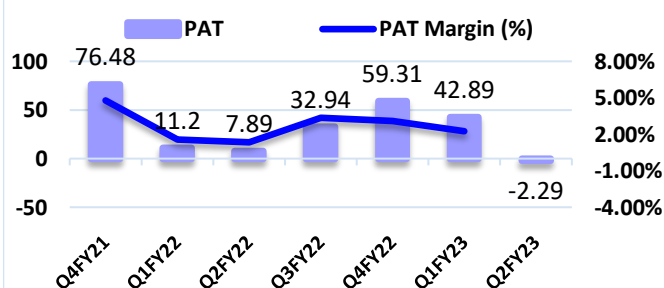
Revenue (Cr)



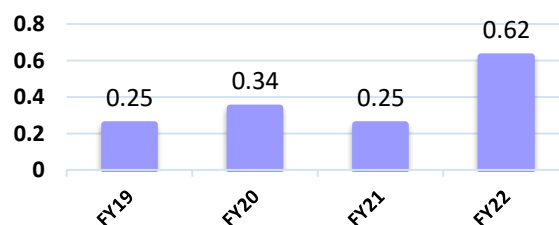
EBITDA & EBITDA Margin



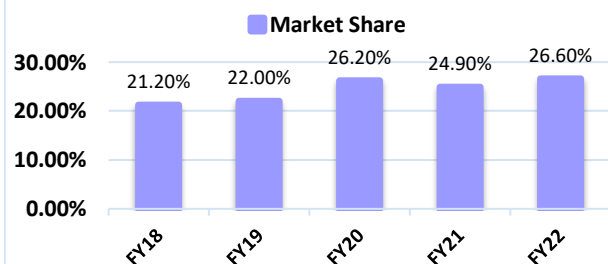
PAT (Cr) and PAT Margin



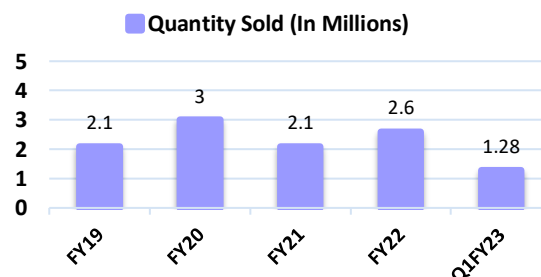
Debt to Equity



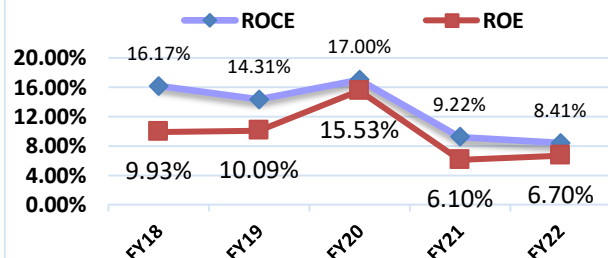
Continuous increase in market share



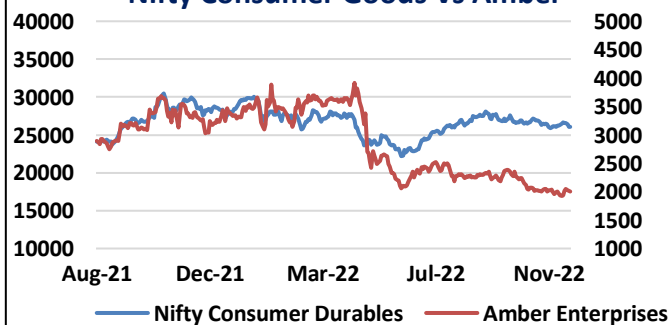
RAC Quantity



ROCE and ROE



Nifty Consumer Goods Vs Amber





INVESTMENT RATIONALE:

- Company witnessed muted Q2FY23 due to revision in BEE rating in July. H2FY23 is expected to be better as demand is expected to pick up in Q4FY23.
- Management has given more than 30% growth guidance and is confident of surpassing industry growth.
- Component business is expected to drive the business in near future as company is a major beneficiary of Government's PLI scheme of component manufacturing.
- Amber has a strong backward integration system and manufactures entire range of components needed for RAC and Non-RAC components. Company does inhouse designing, tooling final assembly and testing. It serves 69% of the total manufacturing value chain (Barring compressors, packaging and C class items inverter RAC)
- Company has a strong market share of 26.6% and aims to increase another 100bps in current financial year.
- Management expects ROCE to improve by 200bps – 300 bps in FY23 and expects further expansion of 300bps in FY24. They expect ROCE to reach in the range of 17%-20% in next 2-3 years.
- Household penetration of RAC in India stands at mere 7% compared to 53% in China. Increase in disposable income and urbanization will create more demand for RAC's in India and this can reap benefits for the company.
- Company has all major brands as their client such as Bluestar, Daikin, Hitachi, LG, Panasonic, Samsung, Voltas and Whirlpool and these brands cumulatively control 75%-80% of the RAC market in India.

RISK / NEGATIVE FACTORS:

- Lower than expected demand in H2FY23 can hamper the profitability of the company.
- Volatility in commodity prices.
- Increase in competitive landscape.
- Abrupt increase in borrowings due to the cyclical nature of the business.
- Brands can start their own manufacturing instead of outsourcing.

COMPANY RECAP

- Amber Enterprises is one of the prominent solution provider for Air Conditioner OEM/ODM industry in India. The company has 23 manufacturing plants spread in 8 states across the country. Company serves all major RAC brands in India such as Voltas, Blue Star, LG and Daikin among others.
- The company has diversified portfolio which includes RACs, RAC and non RAC components and air conditioning solutions for railways, metro's, defence, bus and commercial segment.
- Amber Enterprises has 5 divisions mainly: 1) RAC 2) Mobility (Air conditioning solutions for railways, Metros, Defence, Bus and Commercial segment) 3) Motors 4) Electronics 5) Components (RAC + Non RAC)
- Company forayed into backward integration and started induction motor manufacturing and PCBA manufacturing with the acquisition of PICL India Private Limited in 2013, and Ever Electronics Private Limited and ILJIN Electronics Private Limited in FY2017.
- In 2020 company acquired Sidwal Refrigeration Industries Ltd in order to diversify into roof mounted package unit ACs for mobility applications which caters to HVAC requirements of the railways, metro rail, bus, and defense sectors.
- In FY2022, it acquired majority stake in Pravartaka Tooling Service Private Limited (manufacturer of injection moulding tools and components for other industries, viz., refrigeration and automobiles) and AmberPR Technoplast Private Limited (manufacturer of cross flow fans, a key component in manufacturing RACs).
- Company has expertise in manufacturing heat exchangers, sheet metal components, injection molding components and system tubing and motors.
- Key Management personnel – Mr. Jasbir Singh (Chairman and CEO), Mr. Daljit Singh (MD), Mr. Sanjay Arora (Director of Operations) and Mr. Sudhir Goyal (CFO).



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement

Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Revenue from operations	2,128.08	2,751.99	3,962.79	3,030.52	4,206.40	5465	6831.25
Growth YoY (%)	28.83	29.32	44.00	-23.53	38.80	30.00	25
Total Expenditure	1,944.21	2,538.72	3,652.72	2,809.32	3,929.63	5137.1	6353.06
(%) of sales	91.36	92.25	92.18	92.70	93.42	94	93
EBITDA	183.88	213.27	310.07	221.20	276.77	327.9	478.18
EBITDA Growth (%)	37.88	15.90	42.57	-20.09	21.91	18.18	45.83
EBITDA Margin (%)	8.87	8.11	8.03	8.39	7.37	6	7
Depreciation	49.02	62.31	84.77	92.30	107.91	120	135
EBIT	143.57	160.90	233.45	162.00	202.10	207.9	343.18
EBIT Growth (%)	44.19	12.07	45.09	-30.61	24.75	2.86	65.06
Net Interest Expenses	54.17	24.98	42.71	41.87	47.83	88	75
Other Income	8.72	9.95	8.16	33.10	33.23	45	55
Earnings before Taxes	89.40	135.93	190.74	120.13	154.27	164.9	323.18
EBT Margin (%)	4.12	4.94	4.81	3.96	3.67	3.01	4.73
Tax-Total	27.10	41.16	26.60	36.85	42.95	49.47	96.95
Rate of tax (%)	30.31	30.28	13.94	30.68	27.84	30	30
Net Profit	62.31	94.77	164.14	83.28	111.32	115.43	226.23
PAT Growth (%)	181.37	52.11	73.20	-49.26	33.67	3.69	95.98
PAT Margin (%)	2.87	3.44	4.14	2.75	2.65	2.11	3.31
EPS	19.81	29.78	50.37	24.22	32.41	34.25	67.13
EPS Growth (%)	113.01	50.32	69.13	-51.93	33.83	5.67	96

Balance Sheet

Y/E March	2018	2019	2020	2021	2022
Share Capital	31	31	31	34	34
Reserves	861	955	1097	1570	1701
Net Worth	892	986	1128	1614	1735
Borrowings	114	251	383	399	1069
Other Liabilities	721	1133	1388	1582	2107
Total Liabilities & Equity	1728	2371	2899	3585	4910
Fixed Assets	710	809	1106	1144	1505
CWIP	30	34	12	43	128
Investments	6	0	0	108	225
Other Assets	983	1528	1781	2289	3051
Total Assets					

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2018	2019	2020	2021	2022
Profitability and return ratios					
Net profit margin (%)	2.87	3.44	4.14	2.75	2.65
EBITDA margin (%)	8.87	8.11	8.03	8.39	7.37
EBIT margin (%)	6.61	5.85	5.89	5.35	4.80
ROE (%)	9.93	10.09	15.53	6.10	6.70
ROCE (%)	16.17	14.31	17.00	9.22	8.41
Working Capital & liquidity ratios					
Payables (Days)	105.05	107.49	113.12	175.91	156.10
Inventory (Days)	55.82	63.42	56.02	82.62	67.56
Receivables (Days)	57.88	77.31	75.59	115.82	103.43
Current Ratio (x)	1.32	1.29	1.20	1.31	1.13
Valuations Ratios					
EV/sales (x)	1.58	1.01	1.04	3.73	2.94
EV/EBITDA (x)	17.50	12.45	12.94	44.43	39.96
P/E (x)	54.32	27.48	24.33	137.13	108.80
P/BV (x)	3.79	2.61	3.42	6.97	6.91
Dividend Yield (%)	0.00	0.00	0.26	0.00	0.00
Leverage Ratio					
Debt/Equity (x)	0.13	0.25	0.34	0.25	0.62

Cash Flow Statement					
Y/E March	2018	2019	2020	2021	2022
CF from Operating activities (A)	127	-63	288	221	250
CF from Investing Activities (B)	-152	-113	-327	-481	-698
CF from Financing Activities (C)	128	93	63	370	555
Net Cash Flow	103	-83	25	110	107
Add: Opening Bal.	17	119	39	70	180
Closing Balance	119	39	70	180	299

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
8 TH Dec 2022	Buy	2350

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Name of the Research Analyst: MUDIT JAIN

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3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
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6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

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There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.