



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

26 July 2023

Amber Enterprises

1Q a mixed bag; healthy growth and margin outlook

RESULT UPDATE

Sector: EMS Rating: BUY

CMP: Rs 2,200 Target Price: 2,590

Stock Info

Sensex/Nifty	66,356/19,681
Bloomberg	AMBER IN
Equity shares (mn)	33.7
52-wk High/Low	2,496/1,791
Face value	Rs 10
M-Cap	Rs 74bn/ USD 904mn
3-m Avg volume	USD 6.4mn

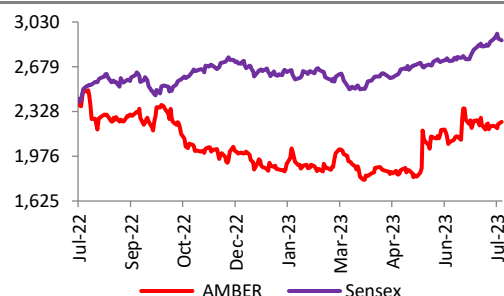
Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Net sales	69,271	80,223	95,155
EBITDA	4,179	5,305	6,740
OPM %	6.0	6.6	7.1
PAT (adj.)	1,572	2,173	3,116
EPS (Rs)	46.7	64.5	92.5
PE (x)	47.2	34.1	23.8
P/B (x)	3.9	3.5	3.1
EV/EBITDA (x)	19.2	15.3	11.9
RoE (%)	8.2	10.3	12.9
RoCE (%) post tax	13.3	12.8	14.9
Net-D/E (x)	0.3	0.3	0.3

Shareholding Pattern (%)

	Jun'23	Mar'23	Dec'22
Promoter	40.3	40.3	40.3
- Pledged			
FII	24.2	23.9	27.1
DII	12.6	13.5	11.5
Others	22.8	22.2	21.1

Stock Performance (1-year)



Amber Enterprises' (AMBER) 1QFY24 result was a mixed bag (revenue down 7% YoY, EBITDA/PAT up 33%/9% on strong 7.8% margin). Component strategy, which led to a change in the product mix, helped improve margins, despite weak RAC demand arising from unseasonal weather patterns. Post strong recovery in FY23 (revenue/EBITDA/PAT up 65%/52%/47% YoY), management has guided 15-20%, 35-40% and 20-25% growth, respectively, in its Mobility, Electronics and Motor divisions for FY24. The RAC and Components division is expected to outpace industry growth (upped guidance to 7-8% from flattish earlier). We retain our estimates post 1Q result and expect AMBER to record 17%/27%/41% CAGR in revenue/EBITDA/PAT over FY23-25E (FY20-23: 20%/11%/flat), with 105bps expansion in its EBITDA margin to ~7%. RoIC too is expected to expand ~400bps to 16.4% in FY25E. With maintain our BUY rating and target price of Rs 2,590 for AMBER, based on 28x FY25E EPS of ~Rs 93.

1Q a mixed bag; strong margins drove PAT beat: Consolidated revenue fell 7% YoY and 43% QoQ to Rs 17bn (11% below consensus estimate). EBITDA/PAT came ~10% above estimates on strong margins. EBITDA rose 33% YoY (10% beat), with a strong 7.8% margin (up 97bps YoY and 232bps QoQ), driven by high 17.5% gross margin (up 311bps YoY and 384bps QoQ). Component strategy, which led to a change in the product mix, helped improve margins, despite weak RAC demand arising from unseasonal weather patterns. Higher finance cost (Rs 453mn, up 115% YoY and 21% QoQ) restricted PAT growth to a low 9% YoY (down 57% QoQ).

Management guidance: For FY24, management has guided 15-20%, 35-40% and 20-25% growth, respectively, in its Mobility, Electronics and Motor divisions for FY24. The RAC and Components division is expected to outpace industry growth; management has upped its growth guidance to 7-8% (down ~25% in 1HCY23 due to erratic weather conditions) from flattish earlier, based on traction in its order book during July-Aug. The company has gained market share with better margins by focusing on components. Electronics margin is inching towards 6% from 5% currently, which was ~3.5% at the time of acquisition, as AMBER focused on improving margins and on new products. Hearables is seeing strong traction with new customer additions. In Mobility, railway modernisation is giving away large orders, and is a decade-long opportunity. AMBER is in the process of getting certification from Railways and expects strong growth FY25 onwards (2x potential in 3 years). In Motors, AMBER is expanding BLDC motors SKUs for Window ACs and commercial segments, and is in advanced stages to add marquee clients in exports.

Capex ramped up to meet strong demand: AMBER has incurred most of ~Rs 7bn FY23 capex in 2H, benefits of which should fully reflect FY24 onwards. It plans to incur Rs 3.8bn capex in FY24 on newer application products and in R&D. Timely capex investments have aided profitability and market-share gains in AMBER's respective verticals. It has committed ~Rs 4bn capex under Gol's PLI scheme (~Rs 3bn for ACs and ~Rs 1bn for electronic components) and expects to receive incentives soon.

Maintain BUY with a TP of Rs 2,590: We retain our estimates post 1Q result, and expect AMBER to record 17%/27%/41% CAGR in revenue/EBITDA/PAT over FY23-25E (FY20-23: 20%/11%/flat), with 105bps expansion in its EBITDA margin to ~7%. RoIC too is expected to expand ~400bps to 16.4% in FY25E. With reiterate our BUY rating and target price of Rs 2,590 for AMBER.

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Investors are advised to refer disclosures made at the end of the research report.

1QFY24 concall key highlights and outlook

1QFY24 performance

- Revenue down 7% YoY and 43% QoQ at Rs 17bn (11% below BB estimate)
- EBITDA/PAT ~10% above estimate, though on strong margins
- EBITDA up 33% YoY (10% beat) with strong 7.8% margin (up 97bps YoY and 232bps QoQ), driven by a high 17.5% gross margin (up 311bps YoY and 384bps QoQ)
- Component strategy, which led to a change in the product mix helped improve margins, despite weak RAC demand arising from unseasonal weather patterns
- Higher finance cost (Rs 453mn, up 115% YoY and 21% QoQ) restricted PAT growth to a low 9% YoY (down 57% QoQ) – 11% beat though

RAC industry

- In 1HCY23, RAC Industry declined by ~20%-25%
- Management upped RAC industry growth guidance from flattish to 7-8%, based on traction in its order book during July-Aug
- RAC industry expected to clock Rs 9mn in FY24 vs Rs 8.3mn in FY23
- Expects excess inventory to get liquidated by 2Q

RAC & Components: Revenue down 14% YoY; EBITDA margin strong at 7.7%

- Margins during the quarter improved on account of component strategy, which led to a change in the product mix
- RAC and Components division is expected to outpace industry growth in FY24
- 1QFY24 has been muted on weak demand, owing to unseasonal rains and weather patterns
- Channel inventory is elevated and expected to normalise by the end of 2QFY24
- Healthy margins aided by change in mix towards component and non-RAC vertical
- RAC mix has fallen from 70% to 50% now (60% to 48% at the consolidated level)
- No change in prices due to stable commodity prices
- Component market share to cross 30% in FY24
- **Asset turn:** 7-8x assembly; 4x on backward integration

Electronics: Revenue up 28% YoY; EBITDA margin 4.1%

- The division has witnessed growth in revenue as well as operating EBITDA
- Expected to grow at 35%-40% in FY24
- Currently, a large part of the PCBA demand is fulfilled via imports. However, government's thrust on manufacturing electronics locally, presents multifold growth opportunity
- Margins inching towards 6% from 5% currently, which was ~3.5% at the time of acquisition
- Newer products have superior margins

- **Revenue mix:** 30% from hearables; 45% to come from durables (ACs, refrigerators, WMs, TVs, etc)
- Asset turn at 10x

Mobility: Revenue up 9% YoY; EBITDA margin 20.2%

- 1QFY23 margins benefited from low-cost inventory and hence, are not comparable with 1QFY24
- Margins are sustainable at 20%-22% at the current commodity prices
- Mobility Application division is expected to grow at 15%-20% in FY24
- With rising transport infrastructure (Railways & Metros, Roadways) the industry is poised to witness substantial growth ahead
- Aims to make Sidwal a multi-product company
- Railway modernisation is giving away large orders – a decade-long theme
- In process of getting certified by Railways - growth FY25 onwards will be quite strong (2x potential in 3 years)
- Automobile - focus on product addition should generate more revenue per car
- Asset turn at 12-15x

Motors: Revenue up 5% YoY; EBITDA margin 11.5%

- Maintained revenue and operating EBITDA as AMBER introduced new product range in the previous quarters
- Expected to grow at 20%-25% in FY24

Others:

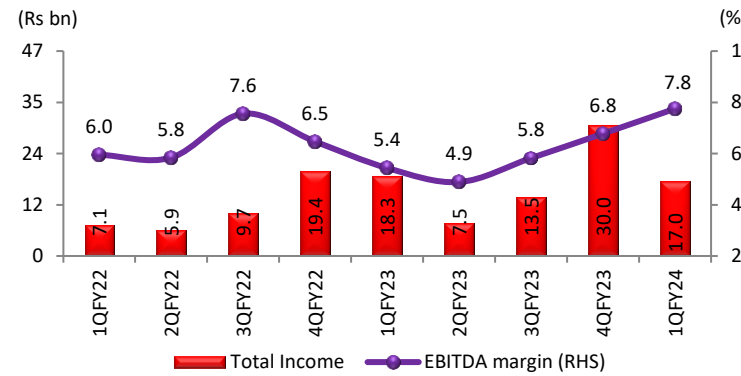
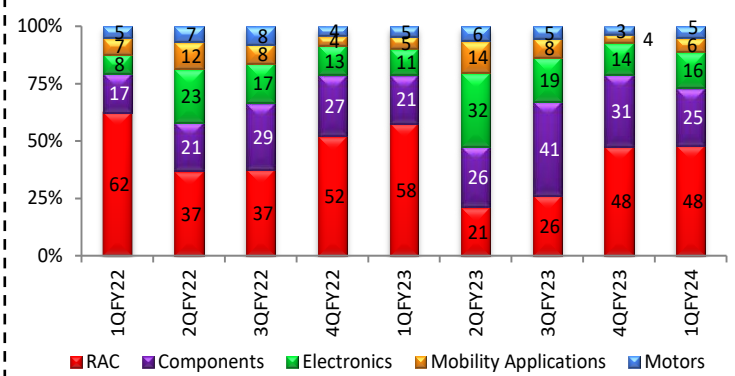
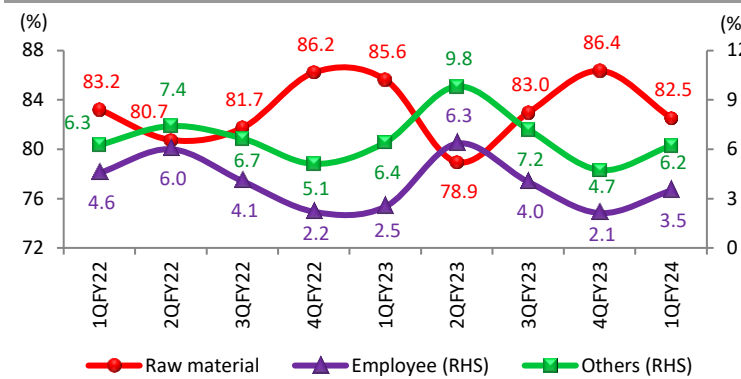
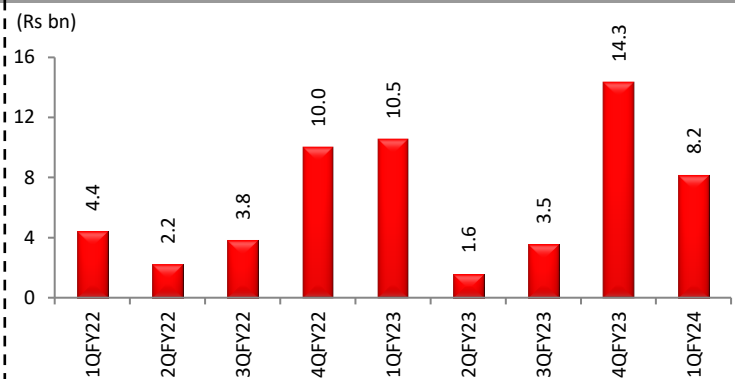
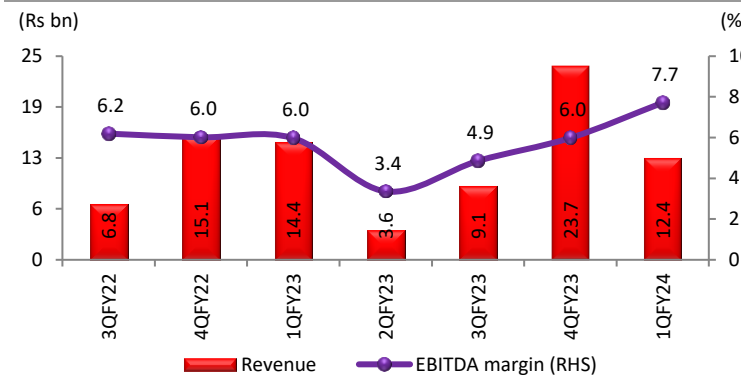
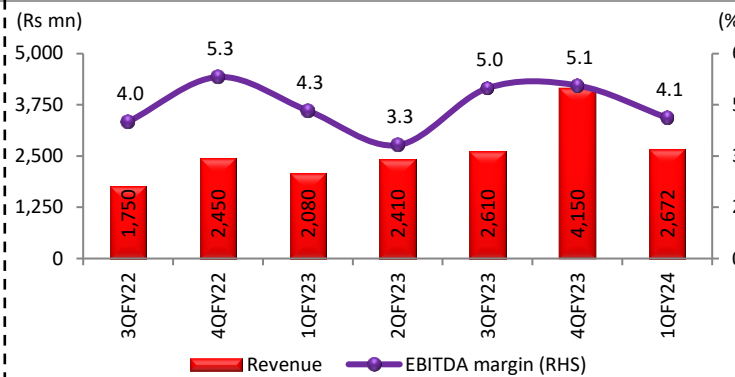
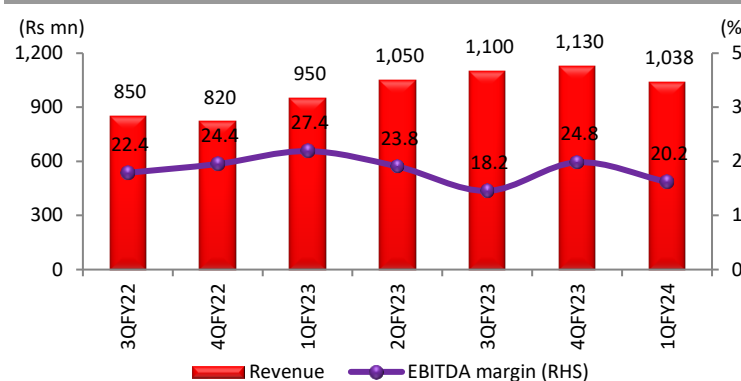
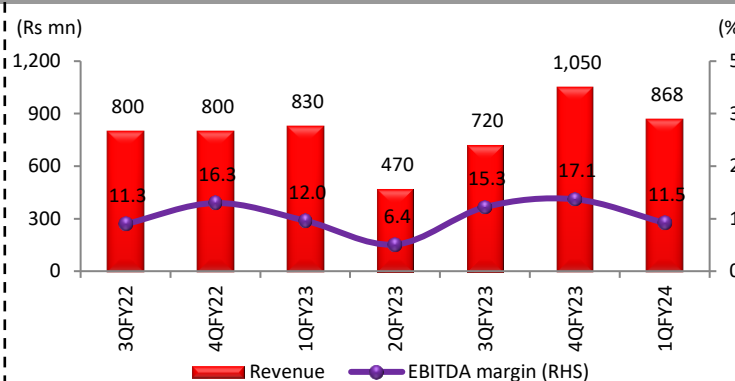
- **CU:** Motors 50%; RAC 55%; Mobility 70%; Components 50-70%
- RM prices stable since some time; generally, change is passed through to customers with a quarter's lag
- Import substitution efforts will likely drive increase in domestic value addition to 75% from 20% 3 years ago
- **RoCE:** 15% FY23, 16%+ FY24, 19-21% in 3 years
- **Capex:** Rs 400mn in 1Q; aims Rs 3.8bn in FY24 on products for newer applications and R&D
- **Exports:** up 40% YoY in 1Q; revenue mix rose to 12% from 7% few years ago; healthy growth of 20-25% should continue
- **PLI:** one of the largest applicants; will receive ~Rs 2.8bn from the government in 5 years

Exhibit 1: Amber (Consolidated) – Quarterly results

(Rs mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Total Income	18,257	7,504	13,483	30,026	17,020	(7)	(43)
Raw material costs	15,635	5,924	11,185	25,933	14,047	(10)	(46)
Employee costs	459	476	542	638	596	30	(7)
Other expenses	1,171	737	971	1,420	1,058	(10)	(25)
EBITDA	992	367	785	2,035	1,319	33	(35)
Depreciation	322	318	363	388	433	35	11
Finance costs	211	244	289	375	453	115	21
Other income	128	122	89	187	193	50	3
PBT	589	(73)	222	1,459	627	6	(57)
Tax	160	(50)	71	378	161	1	(57)
PAT	429	(23)	151	1,081	466	9	(57)
EPS (Rs)	12.5	(0.9)	4.2	30.9	13.5	9	(56)
As % Total Income						YoY (bps)	QoQ (bps)
Gross margin	14.4	21.1	17.0	13.6	17.5	311	384
Employee costs	2.5	6.3	4.0	2.1	3.5	99	137
Other expenses	6.4	9.8	7.2	4.7	6.2	(19)	149
EBITDA margin	5.4	4.9	5.8	6.8	7.8	232	97
Depreciation	1.8	4.2	2.7	1.3	2.5	78	125
EBIT margin	3.7	0.6	3.1	5.5	5.2	153	(28)
Finance costs	1.2	3.2	2.1	1.2	2.7	150	141
Other income	0.7	1.6	0.7	0.6	1.1	43	51
PBT	3.2	(1.0)	1.6	4.9	3.7	46	(118)
Effective tax rate	27.1	68.7	32.1	25.9	25.7	(148)	(26)
PAT	2.3	(0.3)	1.1	3.6	2.7	39	(86)
Segment Revenues						YoY (%)	QoQ (%)
RAC	10,530	1,590	3,533	14,306	8,170	(22)	(43)
Components	3,870	1,980	5,520	9,411	4,272	10	(55)
Motors	830	470	720	1,050	868	5	(17)
Electronics	2,080	2,410	2,610	4,150	2,672	28	(36)
Mobility Applications	950	1,050	1,100	1,130	1,038	9	(8)
Revenue Mix (%)						YoY (bps)	QoQ (bps)
RAC	57.7	21.2	26.2	47.6	48.0	(967)	39
Components	21.2	26.4	40.9	31.3	25.1	391	(622)
Motors	4.5	6.3	5.3	3.5	5.1	55	161
Electronics	11.4	32.1	19.4	13.8	15.7	431	189
Mobility Applications	5.2	14.0	8.2	3.8	6.1	90	234
EBITDA margin (%)						YoY (bps)	QoQ (bps)
RAC & Components	6.0	3.4	4.9	6.0	7.7	174	173
Motors	12.0	6.4	15.3	17.1	11.5	(53)	(562)
Electronics	4.3	3.3	5.0	5.1	4.1	(21)	(94)
Mobility Applications	27.4	23.8	18.2	24.8	20.2	(714)	(455)

Source: Company, Systematix Institutional Research

Quarterly performance

Exhibit 2: Total Income, EBITDA margin - quarterly trend

Exhibit 3: Revenue mix trend

Exhibit 4: Expenses as % total income - quarterly trend

Exhibit 5: RAC – Revenue trend

Exhibit 6: RAC & Components – Revenue, EBITDA margin trend

Exhibit 7: Electronics - Revenue, EBITDA margin trend

Exhibit 8: Mobility Applications - Revenue, EBITDA margin trend

Exhibit 9: Motors - Revenue, EBITDA margin trend


Source: Company, Systematix Institutional Research

Annual performance

Exhibit 10: Revenue growth trend

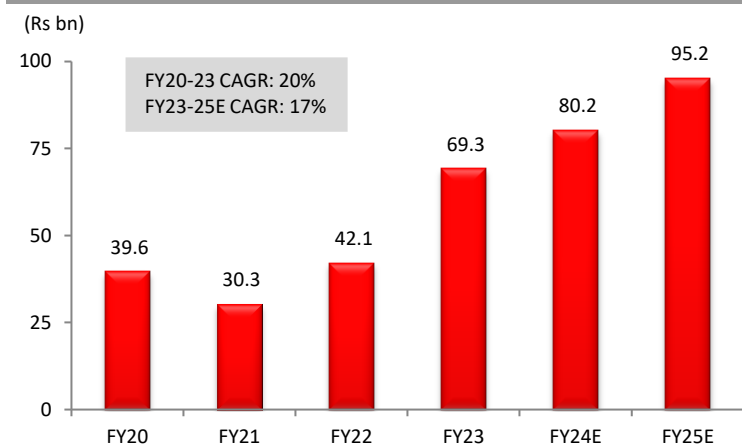


Exhibit 11: Gross, EBITDA and PAT margin trend

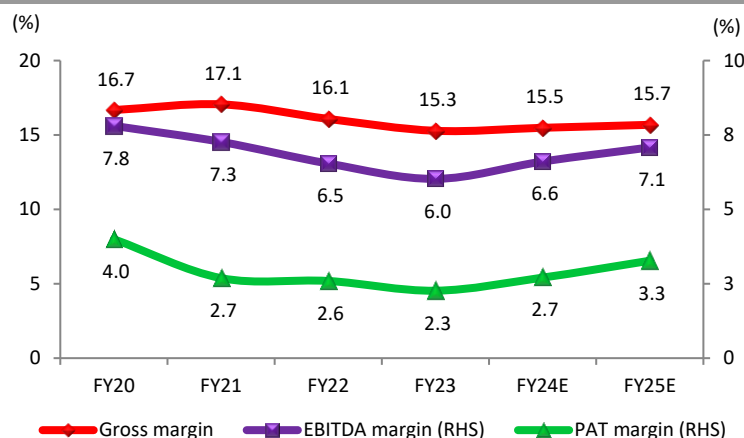


Exhibit 12: PAT, PAT margin trend

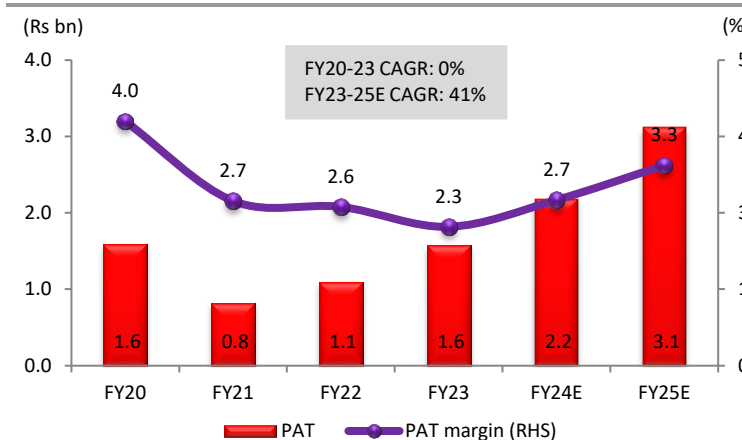


Exhibit 13: Net-WC cycle trend

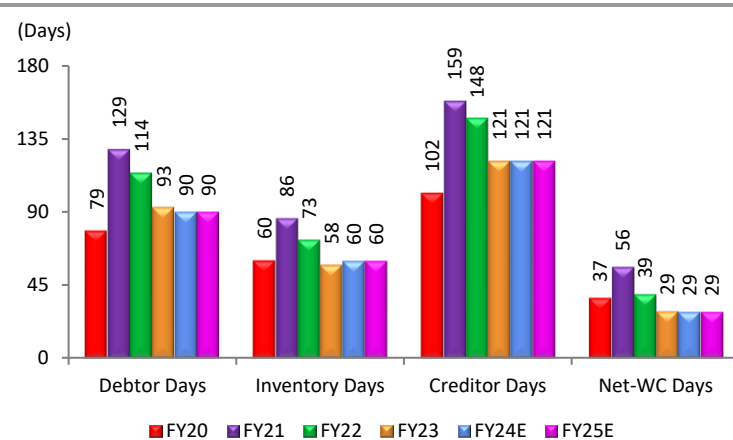


Exhibit 14: ROIC, ROE trend

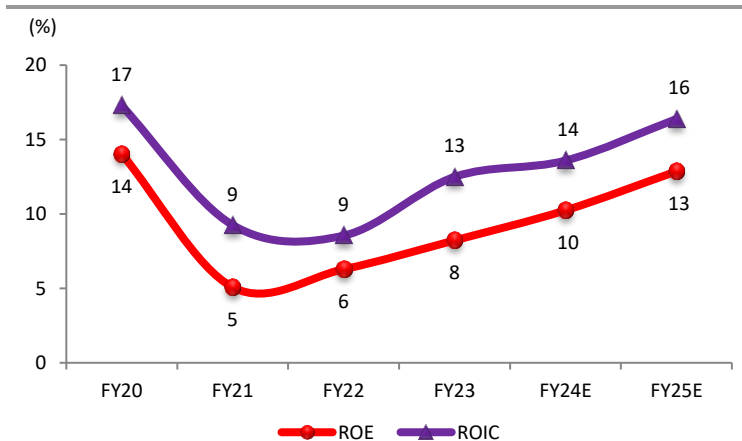
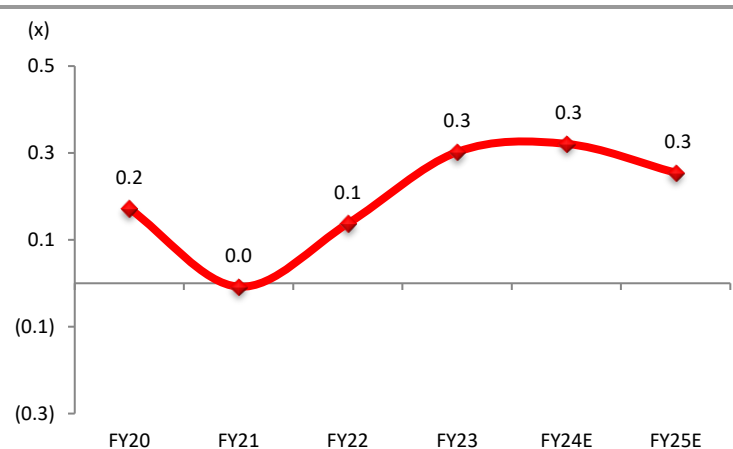


Exhibit 15: Net-Debt/Equity trend



Source: Company, Systematix Institutional Research

Exhibit 16: Revenue mix (%) trend

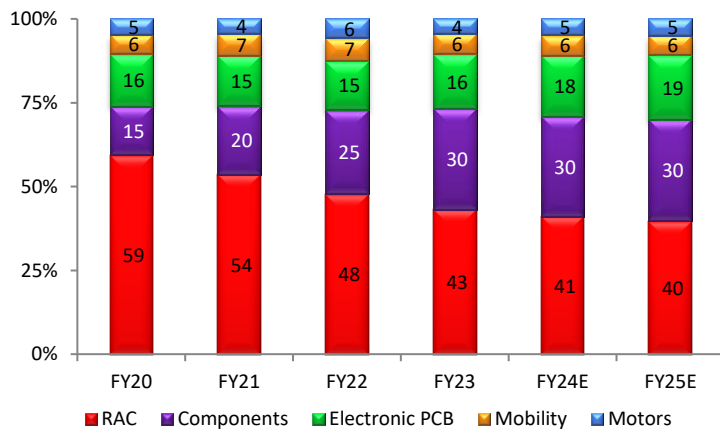


Exhibit 17: RAC and Components - Revenue, margin trend

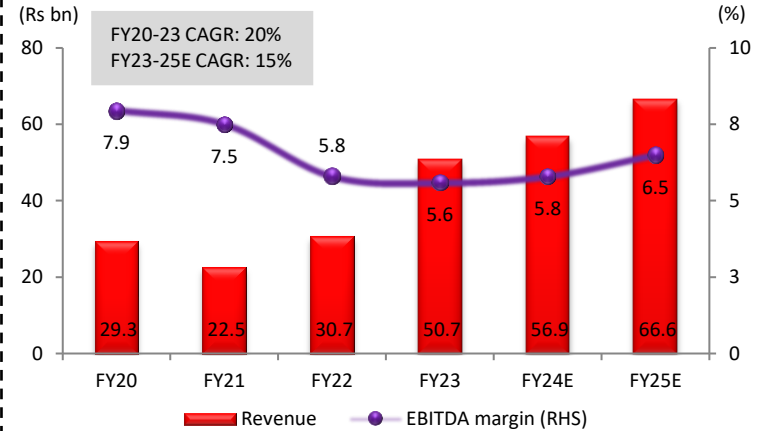


Exhibit 18: Motors - Revenue, margin trend

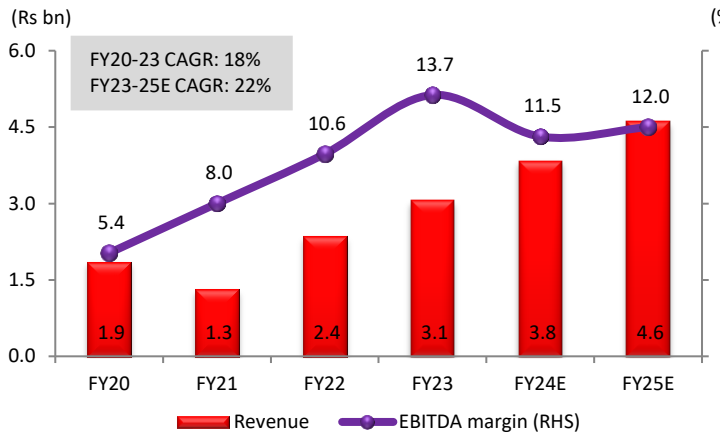


Exhibit 19: Electronic PCBs - Revenue, margin trend

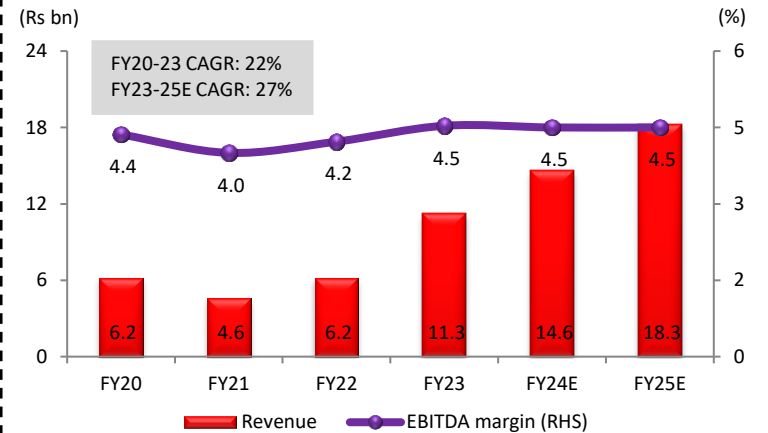
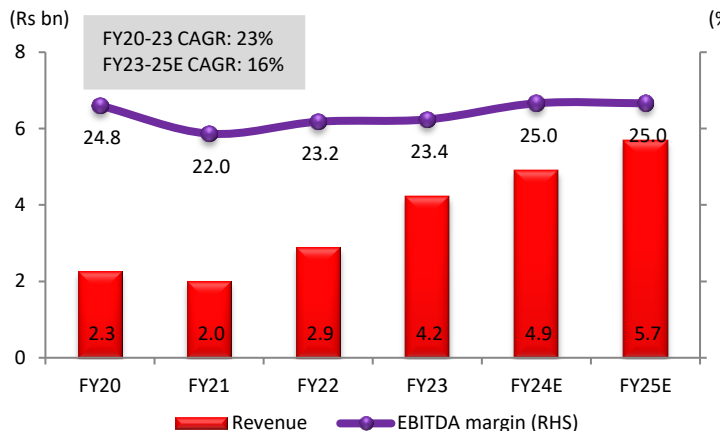


Exhibit 20: Mobility - Revenue, margin trend



Source: Company, Systematix Institutional Research

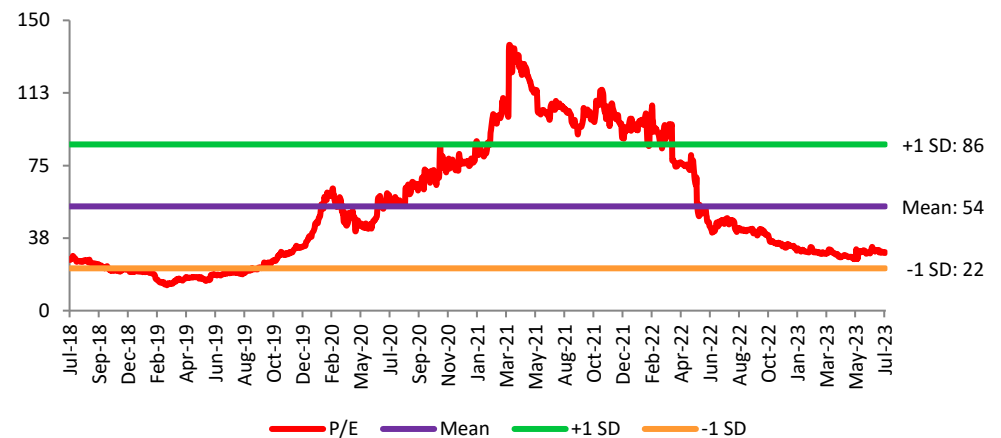
Valuation and View

AMBER is a leader in RAC manufacturing, enjoying ~30% share (20%+ share in RAC-PCBA) in the domestic market. It also commands 25%+ market share across components (except for heat exchangers) and ~40% in cross-flow fans. Since its IPO in FY18, AMBER has strengthened its backward integration in RACs, and diversified into non-consumer verticals (HVAC solutions for railways, metro, defence, bus and commercial segments). Its 25 manufacturing facilities spread across 9 states in India are strategically located close to customer locations, enabling faster turnaround. Timely capex investments have aided profitability and market-share gains in the company's respective verticals.

Post strong recovery in FY23 (revenue/EBITDA/PAT up 65%/52%/47% YoY), management has guided 15-20%, 35-40% and 20-25% growth, respectively, in its Mobility, Electronics and Motor divisions for FY24. The RAC and Components division is expected to outpace industry growth (upped guidance to 7-8% from flattish earlier).

We retain our estimates post 1Q result and expect AMBER to record 17%/27%/41% CAGR in revenue/EBITDA/PAT over FY23-25E (FY20-23: 20%/11%/flat), with 105bps expansion in its EBITDA margin to ~7%. RoIC too is expected to expand ~400bps to 16.4% in FY25E. We maintain our BUY rating and target price at Rs 2,590, based on 28x FY25E EPS of ~Rs 93 for AMBER.

Exhibit 21: P/E band – 1-year-forward and standard deviation



Source: BSE, Company, Systematix Institutional Research

Key Risks

- Weakness in RAC demand and its components
- Delays in passing on the high input prices

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net revenues	30,305	42,064	69,271	80,223	95,155
Growth (%)	(24)	39	65	16	19
Raw material expenses	25,135	35,297	58,678	67,794	80,223
Gross Margin (%)	17.1	16.1	15.3	15.5	15.7
Employee & Other exp.	2,967	4,013	6,414	7,123	8,192
EBITDA	2,203	2,754	4,179	5,305	6,740
EBITDA margins (%)	7.3	6.5	6.0	6.6	7.1
Depreciation	923	1,079	1,391	1,746	1,942
Other income	331	332	527	423	385
Finance costs	410	464	1,118	1,001	924
PBT	1,201	1,543	2,197	2,981	4,259
Effective tax rate (%)	30.7	27.8	25.4	25.4	25.4
Associates/(Minorities)	1	2	3	3	3
Net Income	816	1,092	1,572	2,173	3,116
Adjusted net income	816	1,092	1,572	2,173	3,116
Shares outstanding	34	34	34	34	34
FDEPS (Rs)	24.2	32.4	46.7	64.5	92.5
FDEPS growth (%)	(52)	34	44	38	43

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	337	337	337	337	337
Net worth	16,041	17,342	19,088	21,194	24,208
Total debt	3,844	10,318	13,437	12,237	11,137
Minority interest	365	387	452	452	452
DT Liability/ (Asset)	770	954	947	989	1,032
Capital Employed	21,020	29,001	33,924	34,872	36,829
Net tangible assets	7,864	10,791	17,891	20,144	21,202
Net Intangible assets	3,722	4,487	4,698	4,698	4,698
Goodwill	-	-	-	-	-
CWIP	288	1,056	130	130	130
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	1,080	2,254	1,934	1,934	1,934
Current Assets	19,993	24,882	32,155	36,698	42,952
Cash	2,900	5,626	5,594	3,351	2,924
Current Liabilities	14,827	20,095	28,478	32,082	37,011
Working capital	5,166	4,788	3,677	4,615	5,941
Capital Deployed	21,020	29,001	33,924	34,872	36,829
Contingent Liabilities	26	24	28	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
EBIT (incl. other income)	1,446	1,929	2,935	3,559	4,798
Non-cash items	923	1,079	1,391	1,746	1,942
OCF before WC changes	2,369	3,008	4,327	5,305	6,740
Incr./(decr.) in WC	80	62	582	938	1,326
Others including taxes	79	539	539	716	1,041
Operating cash-flow	2,210	2,407	3,206	3,651	4,373
Capex	1,711	4,077	6,535	4,000	3,000
Free cash-flow	499	(1,670)	(3,329)	(349)	1,373
Acquisitions	-	120	-	-	-
Dividend	-	-	-	67	101
Equity raised	4,000	(0)	-	-	-
Debt raised	151	6,007	3,089	(1,200)	(1,100)
Fin Investments	1,568	3,011	(1,337)	-	-
Misc. Items (CFI + CFF)	1,983	260	851	627	599
Net cash-flow	1,099	1,186	246	(2,244)	(427)

Source: Company, Systematix Institutional Research

Ratios @ Rs 2,200

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	90.9	67.9	47.2	34.1	23.8
EV/EBITDA (x)	33.8	28.2	19.2	15.3	11.9
EV/sales (x)	2.4	1.8	1.2	1.0	0.8
P/B (x)	4.6	4.3	3.9	3.5	3.1
RoE (%)	5.1	6.3	8.2	10.3	12.9
RoCE (%)	10.7	11.1	13.3	12.8	14.9
ROIC (%)	9.3	8.6	12.1	13.2	16.0
DPS (Rs per share)	-	-	-	2.0	3.0
Dividend yield (%)	-	-	-	0.1	0.1
Dividend payout (%)	-	-	-	3.1	3.2
Net debt/equity (x)	(0.0)	0.1	0.3	0.3	0.3
Receivables (days)	129	114	93	90	90
Inventory (days)	86	73	58	60	60
Payables (days)	159	148	121	121	121
CFO:PAT%	271	220	204	168	140

Source: Company, Systematix Institutional Research

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