

Amber Enterprises

Refer to important disclosures at the end of this report

Beating the heat and industry growth

CMP	Target Price
Rs 801 as of (August 9, 2019)	Rs 1,072 (■) 12 months
Rating	Upside
BUY (■)	33.8 %


 Click here to: [Asiamoney Brokers Poll 2019](#)

- Amber reported yet another quarter of stellar RAC volume growth (+89% yoy), led by harsh summers resulting in increased business from existing customers, as well as new client additions. Revenue and EBITDA beat was 40% and 37%, respectively.
- Gross margin contraction was unexpected, while it is attributed to product mix being skewed toward IDUs. Subsidiary operating performance was strong. The recently acquired Sidwal Technologies delivered 26% EBITDA margin vs. 21% in FY19.
- Management remained upbeat on strong RAC volume growth in FY20 as industry inventory levels are at lower levels due to strong sales recorded in Q1. The integration of Sidwal has been done and it is progressing well to achieve the targeted synergies.
- Given robust Q1 volumes, we raise RAC volume growth assumption to 30% from 15% earlier. However, we lower gross margin assumption due to adverse product mix. Retain Buy with a TP of Rs1,072 and OW in EAP.

Robust air conditioner volumes lead to revenue beat

Consolidated revenue grew 74.5% yoy to Rs12.4bn, driven by unprecedented growth in the air conditioners segment, which witnessed 83% growth yoy (RAC volumes grew 89% yoy to 1.03mn units). Other business, which mainly consists of non-AC components, grew 86% yoy, while AC components grew 43% yoy. EBITDA has more than doubled to Rs1,164mn, while EBITDA margins stood at 9.4% (+135bps) yoy. Employee and Other expenses have increased 58% and 43% yoy to Rs236mn and Rs605mn, respectively. PAT stood at Rs643mn, up 143% yoy on higher EBITDA, other income and a lower ETR.

Outlook

RAC volume growth surprised positively, coming in significantly above our estimates and industry volume growth. We believe that Amber is in a sweet spot with: 1) low penetration of RACs, providing growth visibility in the medium- to long term; 2) continued new client additions; 3) increased demand for indigenization due to the hike in import duty; and 4) weakening competition as LEEL has started facing customer losses as per our channel checks. Low inventory levels of brands as a result of strong Q1 numbers should drive growth in the ensuing quarters as well. Its non-AC components business is also gaining traction and management has maintained its revenue guidance of Rs7bn for ILJIN and EVER in FY20E. The successful integration of Sidwal, growth in its order book and reduction in its working capital should also add to the numbers. Key risks: adverse impact of weather on industry RAC volumes, higher working capital requirement, margin contraction and increased competition from Chinese players.

Please see our sector EAP (page 9): [Emkay Alpha Portfolio – Consumer Durables](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue	16,519	21,281	27,520	38,636	43,112
EBITDA	1,305	1,835	2,129	3,155	3,636
EBITDA Margin (%)	7.9	8.6	7.7	8.2	8.4
APAT	221	623	937	1,384	1,659
EPS (Rs)	9.3	19.8	29.8	44.0	52.8
EPS (% chg)	(16.3)	113.0	50.3	47.7	19.9
ROE (%)	7.1	9.9	10.0	13.1	13.7
P/E (x)	86.1	40.4	26.9	18.2	15.2
EV/EBITDA (x)	17.5	13.7	12.8	9.1	7.8
P/BV (x)	5.3	2.8	2.6	2.2	1.9

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY20E/FY21E (%)	3.0/2.8
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY20E	FY21E
Emkay	44.0	52.8
Consensus	40.9	49.6
Mean Consensus TP (12M)	Rs 1,063	

Stock Details

Bloomberg Code	AMBER IN
Face Value (Rs)	10
Shares outstanding (mn)	31
52 Week H/L	1,128 / 621
M Cap (Rs bn/USD bn)	25 / 0.36
Daily Avg Volume (nos.)	12,030
Daily Avg Turnover (US\$ mn)	0.1

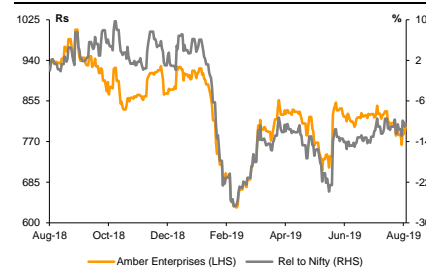
Shareholding Pattern Jun '19

Promoters	44.0%
FIIIs	11.4%
DIIIs	5.7%
Public and Others	38.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	5	15	(13)
Rel. to Nifty	1	6	13	(10)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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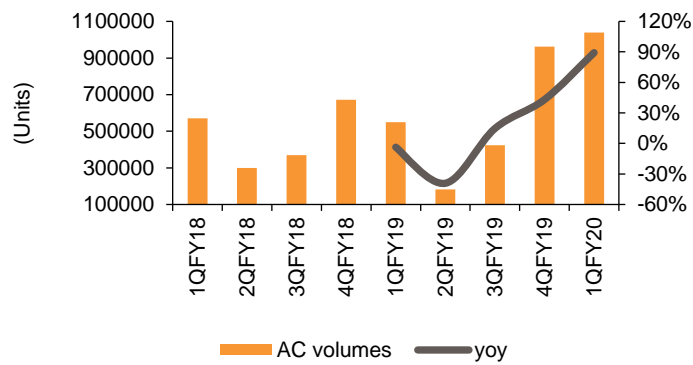
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Other highlights

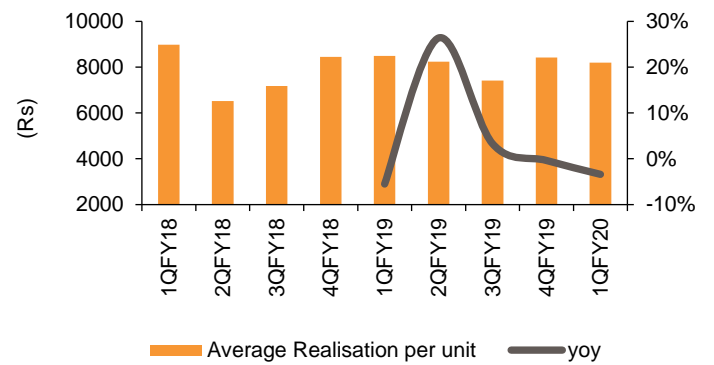
- The air conditioner segment saw stellar revenue growth of 83% for the standalone business, while other business, which consists of AC and non-AC components, has just managed to grow by 6% yoy. The company has added Samsung, Toshiba, Flipkart, Livpure, Sansui and Amazon basics as its new customers.
- IDU volumes doubled to 4,80,000 in Q1FY20 from 2,30,000 in Q1FY19. Window AC volumes grew 22.2% to 1,70,000, while ODU saw moderate volume growth in Q1 FY20.
- ILJIN's revenue stood at Rs900mn, with EBITDA margin of 5.3%.
- EVER's revenue increased 45.9% yoy to Rs890mn. EBITDA margin of 3.7% was largely stable on a yoy basis.
- PICL's revenue growth was also strong at 67%, with EBITDA margin of 7.6% in Q1FY20.

Exhibit 1: RAC volume – Quarterly trend



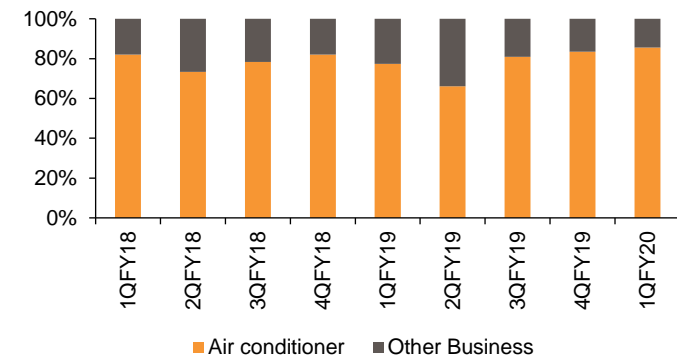
Source: Company, Emkay Research

Exhibit 2: Average realization per unit – Quarterly trend



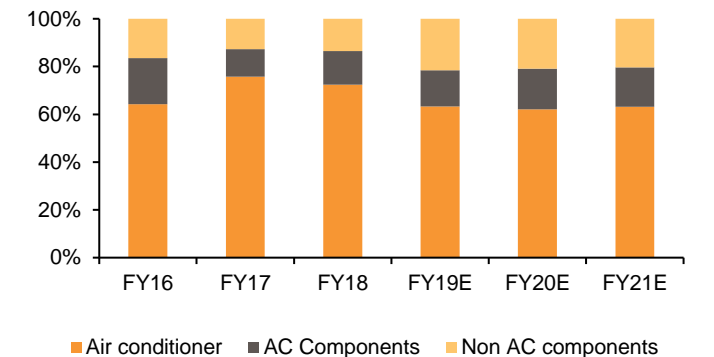
Source: Company, Emkay Research

Exhibit 3: Standalone quarterly revenue breakdown



Source: Company, Emkay Research

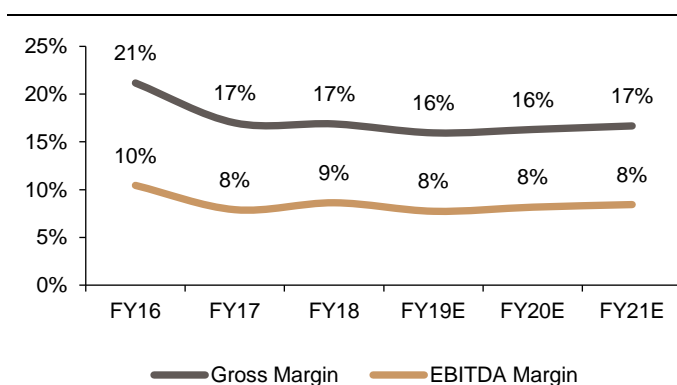
Exhibit 4: Consolidated annual revenue breakdown



Source: Company, Emkay Research

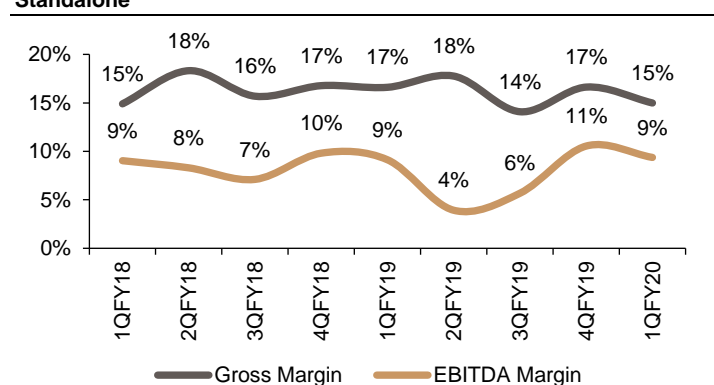
- Standalone gross margin has contracted 162bps yoy to 15%. The contraction is attributed to a change in product mix (higher number of IDUs compared with ODUs).

Exhibit 5: Gross margin and EBITDA margin – Consolidated



Source: Company, Emkay Research

Exhibit 6: Gross margin and EBITDA margin quarterly trend - Standalone



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates – standalone (Q1FY20)

(Rs mn)	Actual	Estimate		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue	9,957	7,130	7,399	40%	35%	Revenue beat was due to 83% growth in air conditioner revenues
EBITDA	933	683	700	37%	33%	
EBITDA Margin	9.4%	9.6%	9.5%	-21 bps	-9 bps	EBITDA margin was lower on adverse product mix toward IDUs
PAT	486	385	375	26%	29%	Higher EBITDA has translated into PAT beat

Source: Company, Emkay Research

Exhibit 8: Standalone quarterly financials

Rs mn	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	YoY (%)	QoQ (%)
Total Sales	6,021	2,263	3,888	9,713	9,957	65.4	2.5
Raw Material	5021	1861	3340	8098	8465	68.6	4.5
as % of sales	83.4	82.2	85.9	83.4	85.0		
Employee Cost	114.7	105.3	98.4	110.9	126.0	9.8	13.5
as % of sales	1.9	4.7	2.5	1.1	1.3		
Other operating expenses	335	208	228	480	433	29.2	(9.7)
as % of sales	5.6	9.2	5.9	4.9	4.4		
Total Expenditure	5471	2174	3667	8689	9024	64.9	3.9
EBITDA	550	89	221	1024	933	69.8	(8.9)
Depreciation	120.0	123.1	122.1	130.7	145.2	21.0	11.1
EBIT	430	-34	99	893	788	83.4	(11.8)
Other Income	11	28	3	49	50	377.1	3.8
Interest	28.8	32.8	34.6	51.5	76.5	165.8	48.6
PBT	411	-39	67	890	762	85.1	(14.5)
Tax	122.8	-22.0	28.3	274.9	275.9	124.7	0.4
PAT before MI	289	-17	38	616	486	68.3	(21.1)
Minority interest	0.0	0.0	0.0	0.0	0.0		
PAT	289	-17	38	616	486	68.3	(21.1)
Margins (%)						(bps)	(bps)
EBIDTA	9.1	3.9	5.7	10.5	9.4	24	(117)
EBIT	7.1	(1.5)	2.5	9.2	7.9	78	(129)
EBT	6.8	(1.7)	1.7	9.2	7.7	82	(152)
PAT	4.8	(0.8)	1.0	6.3	4.9	8	(146)
Effective Tax rate	29.8	55.7	42.4	30.9	36.2	638	535

Source: Company, Emkay Research

Exhibit 9: Consolidated quarterly financials

Rs mn	Q1FY19	Q4FY19	Q1FY20	YoY (%)	QoQ (%)
Total Sales	7,081	11,960	12,359	74.5	3.3
Raw Material	5938	10044	10355	74.4	3.1
as % of sales	83.9	84.0	83.8		
Employee Cost	149.3	171.3	235.7	57.8	37.6
as % of sales	2.1	1.4	1.9		
Other operating expenses	422	614	605	43.2	(1.5)
as % of sales	6.0	5.1	4.9		
Total Expenditure	6509	10829	11195	72.0	3.4
EBITDA	571	1131	1164	103.7	2.9
Depreciation	146.2	167.9	200.2	37.0	19.3
EBIT	425	963	964	126.7	0.0
Other Income	13	54	61	385.2	13.9
Interest	50.8	78.4	109.7	115.8	40.0
PBT	387	939	915	136.5	(2.5)
Tax	122.0	270.6	272.0	123.0	0.5
PAT before MI	265	668	643	142.8	(3.7)
Minority interest	0.0	8.9	31.1		
PAT	265	659	612	131.0	(7.2)
Margins (%)				(bps)	(bps)
EBIDTA	8.1	9.5	9.4	135	(4)
EBIT	6.0	8.1	7.8	179	(26)
EBT	5.5	7.9	7.4	194	(44)
PAT	3.7	5.5	5.0	121	(56)
Effective Tax rate	31.5	28.8	29.7	(181)	90

Source: Company, Emkay Research

- We have revised our sales estimates upward by 4.9%/5.5% for FY20/FY21, driven by increase in RAC volume assumption to 30% vs 15% earlier. However, adverse product mix with skew towards IDU has led to gross margin cut, resulting to no change in EBITDA. FY20/FY21E PAT has increased by 3%/2.8% on higher other income.

Exhibit 10: Estimate revision

Particulars	FY20E			FY21E		
	Old	New	% Change	Old	New	% Change
Revenue	36,010	37,792	4.9%	40,375	42,597	5.5%
EBITDA	3,156	3,161	0.2%	3,640	3,627	-0.3%
EBITDA Margin %	8.8	8.4	-40 bps	9.0	8.5	-50 bps
PAT	1347	1388	3.0%	1618	1663	2.8%
EPS	42.8	44.1	3.0%	51.5	52.9	2.8%

Source: Company, Emkay Research

Exhibit 11: Key revenue assumptions

Rs mn	FY16	FY17	FY18	FY19	FY20E	FY21E
Air-Conditioner	6,995	12,518	15,404	17,408	21,951	25,243
% yoy growth		79%	23%	13%	26%	15%
AC Components	2,101	1,893	2,999	4,172	6,258	6,758
% yoy growth		-10%	58%	39%	50%	8%
Non AC Components	1,794	2,108	2,877	5,941	7,663	8,276
% yoy growth		17%	37%	106%	29%	8%
Sidwal					1,920	2,318
% yoy growth						21%
Total Revenue	10,890	16,519	21,281	27,520	37,792	42,597
% yoy growth		52%	29%	29%	37%	13%

Source: Company, Emkay Research

Conference call highlights

- **RAC Volume:** Growth was driven by: 1) new customers; 2) increased wallet share from existing customers with more offerings on the table; 3) increased demand from online players; and 4) customs duty hike has also added to increased demand. Component segments are also gaining traction. **RAC Industry is expected to grow at ~25% in FY20.**
 - Capacity utilization stood at 80% on increased capacity vs. 75% earlier.
 - **Hoping for good off-season and Q4FY20. Inventory levels are low with the brands due to strong demand in Q1.**
 - **Online sales for RACs were up 12% vs. 3% two years ago.**
 - **Top-3 customers are LG, Panasonic and Voltas, contributing 16% each to the revenues of Amber.**
- **Ind-AS 116 impact:** There is no impact on EBITDA but on depreciation it is Rs39mn.
- **Gross margins:** The contraction is primarily due to product mix with more of IDUs. Increased demand for IDUs in the medium term should drive operating leverage as the purchase scale will also move up.
 - IDUs are largely imported by brands while the increase in import duty has benefited strong volumes, and if this trend sustains, operating leverage should kick in in the medium term. Any brand which has demand for >100,000 IDUs will have to do domestic procurement.
- Standalone net debt stood at Rs2.7bn with working capital days at 41. Consolidated net debt stands at Rs3.8bn with term loans of Rs2.1bn and with the remaining working capital limits. Net working capital days stand at 38 vs. 49 in Q1FY19.
 - FCF for Q1FY20 was Rs340mn.
 - Consolidated capex for FY20 is expected at Rs1.25bn with Rs240mn already done in Q1FY20 and will be funded through internal accruals.
 - Debt is expected to remain constant in FY20 due to capex spends, and increased demand will require higher working capital as well.
- **Subsidiaries:** Targeted guidance of Rs7bn revenue for ILJIN+ Ever in FY20 remains intact. Sidwal became a subsidiary from May 2, 2019 and the integration has been successfully done with incremental synergies already identified.

Exhibit 12: Subsidiary Financials

Revenue (Rs mn)	Q1FY20	EBITDA (Rs mn)	Q1FY20	EBITDA %	Q1FY20	PAT (Rs mn)	Q1FY20
PICL	500	PICL	38	PICL	7.6%	PICL	9
ILJIN	910	ILJIN	48	ILJIN	5.2%	ILJIN	28
Ever	810	Ever	30	Ever	3.7%	Ever	20
Sidwal (2 Months)	310	Sidwal (2 Months)	80	Sidwal (2 Months)	25.8%	Sidwal (2 Months)	60

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue	16,519	21,281	27,520	38,636	43,112
Expenditure	15,213	19,445	25,391	35,482	39,475
EBITDA	1,305	1,835	2,129	3,155	3,636
Depreciation	401	490	623	792	899
EBIT	904	1,345	1,506	2,362	2,737
Other Income	88	87	99	89	81
Interest expenses	635	538	246	458	429
PBT	357	894	1,359	1,994	2,389
Tax	136	271	412	598	717
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	11	12	13
Reported Net Income	221	623	937	1,384	1,659
Adjusted PAT	221	623	937	1,384	1,659

Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Equity share capital	238	314	314	314	314
Reserves & surplus	3,389	8,613	9,547	10,943	12,615
Net worth	3,627	8,928	9,861	11,257	12,930
Minority Interest	0	0	190	190	190
Loan Funds	3,946	1,140	2,479	3,979	3,729
Net deferred tax liability	65	352	438	438	438
Total Liabilities	7,638	10,419	12,969	15,864	17,287
Net block	5,568	7,100	8,095	10,681	11,599
Investment	0	57	0	0	0
Current Assets	6,724	9,830	15,276	19,875	22,112
Cash & bank balance	166	1,194	401	358	468
Other Current Assets	622	697	1,150	1,560	1,726
Current liabilities & Provision	4,867	6,866	10,739	15,028	16,761
Net current assets	1,856	2,964	4,537	4,847	5,351
Misc. exp	0	0	0	0	0
Total Assets	7,638	10,419	12,969	15,864	17,287

Cash Flow

Y/E Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
PBT (Ex-Other income) (NI+Dep)	269	807	1,260	1,905	2,309
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(883)	207	(2,280)	(353)	(394)
Operating Cashflow	1,417	1,270	(631)	2,204	2,526
Capital expenditure	(821)	(2,107)	(1,657)	(3,379)	(1,817)
Free Cash Flow	596	(836)	(2,287)	(1,175)	709
Investments	0	(57)	57	0	0
Other Investing Cash Flow	(112)	557	383	0	0
Investing Cashflow	(845)	(1,520)	(1,117)	(3,289)	(1,736)
Equity Capital Raised	21	76	0	0	0
Loans Taken / (Repaid)	412	(2,807)	1,340	1,500	(250)
Dividend paid (incl tax)	60	0	0	0	0
Other Financing Cash Flow	(265)	4,712	1,055	401	358
Financing Cashflow	(407)	1,444	2,149	1,444	(321)
Net chg in cash	166	1,194	401	358	468
Opening cash position	57	166	1,194	401	358
Closing cash position	166	1,194	401	358	468

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY17	FY18	FY19	FY20E	FY21E
EBITDA Margin	7.9	8.6	7.7	8.2	8.4
EBIT Margin	5.5	6.3	5.5	6.1	6.3
Effective Tax Rate	38.0	30.3	30.3	30.0	30.0
Net Margin	1.3	2.9	3.4	3.6	3.9
ROCE	14.0	15.9	13.7	17.0	17.0
ROE	7.1	9.9	10.0	13.1	13.7
RoIC	13.6	16.7	14.3	17.2	17.3

Per Share Data (Rs)	FY17	FY18	FY19	FY20E	FY21E
EPS	9.3	19.8	29.8	44.0	52.8
CEPS	26.1	35.4	49.6	69.2	81.3
BVPS	152.3	283.9	313.6	358.0	411.2
DPS	(2.5)	0.0	0.0	0.0	0.0

Valuations (x)	FY17	FY18	FY19	FY20E	FY21E
PER	86.1	40.4	26.9	18.2	15.2
P/CEPS	31.7	23.4	16.7	12.0	10.2
P/BV	5.3	2.8	2.6	2.2	1.9
EV / Sales	1.4	1.2	1.0	0.7	0.7
EV / EBITDA	17.5	13.7	12.8	9.1	7.8
Dividend Yield (%)	(0.3)	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY17	FY18	FY19	FY20E	FY21E
Net Debt/ Equity	1.0	0.0	0.2	0.3	0.3
Net Debt/EBIDTA	2.9	(0.1)	1.0	1.1	0.9
Working Cap Cycle (days)	37.4	30.4	54.9	42.4	41.3

Growth (%)	FY17	FY18	FY19	FY20E	FY21E
Revenue	51.7	28.8	29.3	40.4	11.6
EBITDA	14.8	40.6	16.0	48.2	15.3
EBIT	9.1	48.8	11.9	56.9	15.9
PAT	(8.1)	181.4	50.3	47.7	19.9

Quarterly (Rs mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Revenue	6,021	2,263	3,888	9,713	9,957
EBITDA	550	89	221	1,024	933
EBITDA Margin (%)	9.1	3.9	5.7	10.5	9.4
PAT	289	(17)	38	616	486
EPS (Rs)	9.2	(0.6)	1.2	19.6	15.4

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoters	44.0	44.0	44.0	44.0	44.0
FIs	10.8	10.7	10.7	11.5	11.4
DIs	7.9	7.7	8.1	5.9	5.7
Public and Others	37.3	37.6	37.2	38.7	38.8

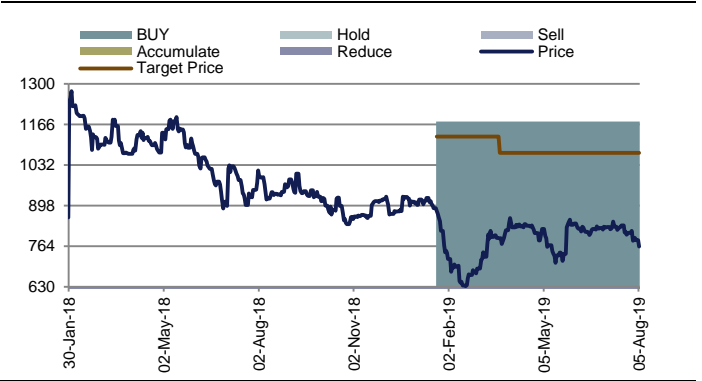
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
13-Jun-19	817	1,072	12m	Buy	Naval Seth
27-May-19	826	1,072	12m	Buy	Naval Seth
20-May-19	743	1,072	12m	Buy	Naval Seth
08-Apr-19	835	1,072	12m	Buy	Naval Seth
26-Mar-19	780	1,072	12m	Buy	Naval Seth
23-Mar-19	790	1,072	12m	Buy	Naval Seth
14-Mar-19	815	1,126	12m	Buy	Naval Seth
11-Feb-19	700	1,126	12m	Buy	Naval Seth
21-Jan-19	880	1,126	12m	Buy	Naval Seth

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Note:

We have updated our Rating Distribution with effect from **March 20, 2019** – **Kindly refer the Disclaimer page**, however for our erstwhile recommendations till **March 19, 2019**, the rating distribution of the expected total return stands as (**Buy** – Over 25%, **Accumulate** – Over 10% , **Hold** – Upto 10%, **Reduce** – Below 10%, **Sell** – Underperforms the broad market indices or its related universe).

Emkay Alpha Portfolio – Consumer Durables



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Sector

Media, Telecom, Consumer Durables

Analyst bio

Naval holds an MBA in Finance and has more than 10 years of experience in equity research. His team currently covers 18 stocks spread across three different sectors.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Consumer Durables	0.77	0.70	-9%	-7	100.00
Amber Enterprises	0.00	0.02	NA	2	2.00
Crompton Greaves CE	0.17	0.19	15%	3	25.00
Dixon Technologies	0.00	0.02	NA	2	2.00
Havells India	0.28	0.20	-29%	-8	26.00
Voltas	0.23	0.23	0%	0	30.27
V-Guard Industries	0.00	0.00	NA	0	0.00
Whirlpool Of India	0.09	0.04	-51%	-4	5.50
Cash	0.00	0.07	NA	7	9.23

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base			Latest
	1-Apr-19	8-May-19	8-Jul-19	8-Aug-19
EAP - Consumer Durables	100.0	94.3	97.0	91.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	93.6	97.8	89.6

*Performance measurement base date 1st April 2019

Source: Emkay Research

Please see our EAPs:

[Emkay Alpha Portfolio – Nifty](#)

[Emkay Alpha Portfolio – SMID](#)

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 10 Aug 2019 02:00:18 (SGT)
Dissemination Date: 10 Aug 2019 02:01:18 (SGT)

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