

HOLD

TP: Rs 2,300 | ▲ 1%

AMBER ENTERPRISES

Consumer Durables

10 August 2022

Mixed quarter; challenges ahead

- Q1 EBITDA margin down 100bps QoQ to 5.4% and adj. PAT below estimates at Rs 429mn
- Management confident of surpassing AC industry growth in FY23, but we see challenges from rising competition and OEM capacity adds
- TP revised down to Rs 2,300 (vs. Rs 3,500) as we pare FY23/FY24 EPS by 2%/8% and scale back our FY24E P/E multiple from 40x to 30x

Vinod Chari | Tanay Rasal
research@bobcaps.in

Disappointing quarter: In Q1FY23, Amber's room AC volumes was 1.28mn units vs. 1.5mn in Q4FY22, while realisations rose 33%. EBITDA margin declined 100bps QoQ to 5.4% owing to a 19% rise in other expenses related to forex loss (Rs 230mn), loss on fixed assets, and MTM (bonds) loss. As a result, adj. PAT came in sequentially lower at Rs 429mn (-28% QoQ. Margins reflect Q4FY22 costs as pass-along of costs typically occurs with a quarter's lag. Management has a cautious maring outlook given the soft demand season for ACs in Q2 and Q3, as well as the recent change in BEE (energy efficiency) ratings.

Confident of outperforming industry growth...: Management anticipates industry volumes at 8.2-8.4mn in FY23 vs. 7mn/5.2mn/6.4mn in FY20/FY21/FY22, implying 28-30% growth. Amber expects its RAC volume growth to surpass the industry by 2ppt-4ppt in FY23. It also expects 30%/35% growth in its motor/electronic businesses and 25% growth each in mobility solutions and new acquisitions (Amber PR, Pravartaka).

...but structural growth headwinds emerging: A primary overhang for Amber is the capacity addition implemented by most OEMs in the AC segment under the PLI scheme. The implications could be significant because OEMs would want to utilise their capacity first, before outsourcing to companies like Amber. Nevertheless, management remains optimistic of raising market share by 200bps from the current 26.6% (in value terms). Key to watch, in our view, would be the contribution of components (business to subsidiaries at relatively high margins) and traction in exports.

Capex in place to diversify revenue stream: Management has maintained its FY23 capex guidance of Rs 4bn, of which Rs 1.5bn (subject to approval) will be spent on brownfield capacity, primarily for room ACs and consumer durables. The Sri City greenfield plant is scheduled to begin commercial production mid-Dec'22.

Maintain HOLD: In view of intensifying competition in the AC industry as well capacity addition by OEMs, we cut our target FY24E P/E multiple from 40x to 30x (10% discount to 4Y average) and pare our FY23/FY24 EPS estimates by 2%/8%. This yields a revised TP of Rs 2,300 (vs. Rs 3,500) – retain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	AMBER IN/Rs 2,272
Market cap	US\$ 962.7mn
Free float	60%
3M ADV	US\$ 4.2mn
52wk high/low	Rs 4,026/Rs 2,040
Promoter/FPI/DII	40%/27%/9%

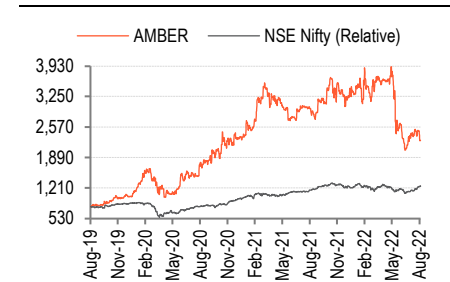
Source: NSE | Price as of 8 Aug 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	42,064	57,971	73,795
EBITDA (Rs mn)	2,754	4,193	5,647
Adj. net profit (Rs mn)	1,113	1,849	2,634
Adj. EPS (Rs)	33.0	54.9	78.2
Consensus EPS (Rs)	33.0	58.5	90.7
Adj. ROAE (%)	6.7	10.1	12.8
Adj. P/E (x)	68.8	41.4	29.1
EV/EBITDA (x)	27.8	18.3	13.6
Adj. EPS growth (%)	33.7	66.1	42.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

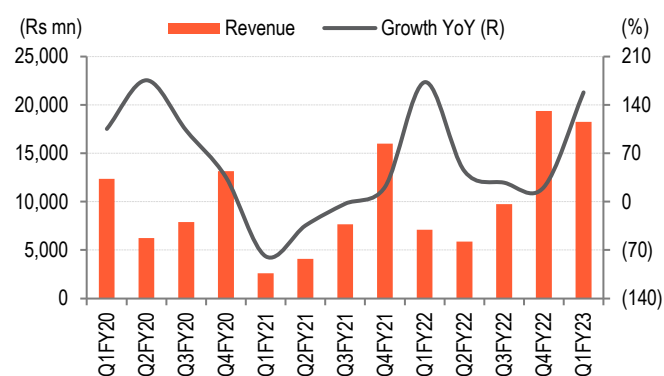


Fig 1 – Quarterly performance

Particulars (Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Revenue	18,257	7,079	157.9	19,367	(5.7)
EBITDA	992	422	135.3	1,253	(20.8)
EBITDA margin (%)	5.4	6.0	(52bps)	6.5	(103bps)
Depreciation	322	244	-	302	-
Interest	211	91	-	186	-
Other Income	128	71	-	94	-
PBT	589	158	273.4	859	(31.4)
Tax	160	46	-	266	-
Adjusted PAT	429	112	283.1	593	(27.7)
Exceptional item	-	-	-	0	-
Reported PAT	429	112	283.1	593	(27.7)
Adj. PAT margin (%)	2.3	1.6	77bps	3.1	(71bps)
EPS (Rs)	12.7	3.3	283.1	17.6	(27.7)

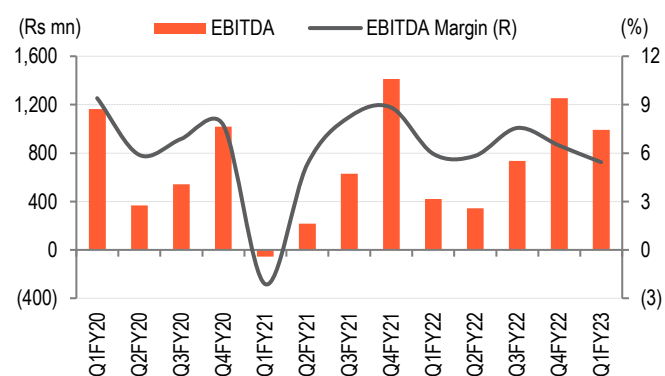
Source: Company, BOBCAPS Research

Fig 2 – Revenue growth



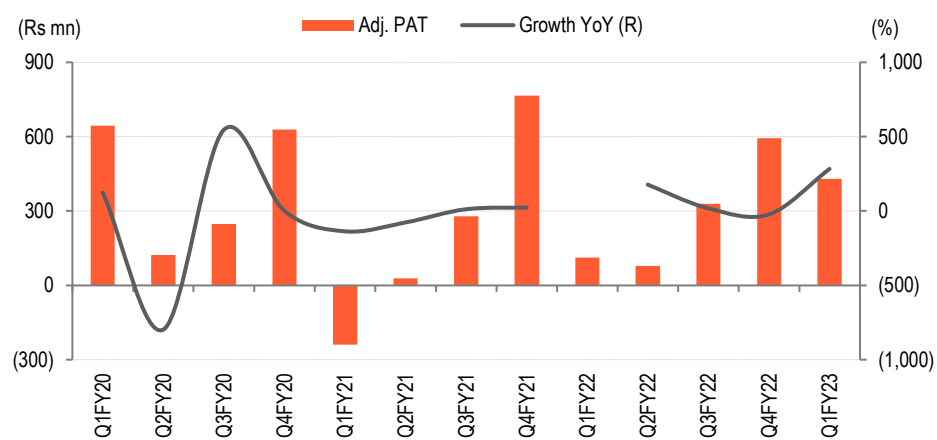
Source: Company, BOBCAPS Research

Fig 3 – EBITDA growth



Source: Company, BOBCAPS Research

Fig 4 – PAT growth



Source: Company, BOBCAPS Research

Valuation methodology

In view of intensifying competition in the air conditioning industry as well capacity addition by OEMs, we cut our target FY24E P/E multiple for Amber from 40x to 30x (10% discount to stock's four-year average) and pare our FY23/FY24 EPS estimates by 2%/8%. This yields a revised TP of Rs 2,300 (vs. Rs 3,500) – retain HOLD.

Fig 5 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	57,971	73,795	58,361	74,154	(0.7)	(0.5)
EBITDA	4,193	5,647	4,372	5,827	(4.1)	(3.1)
PAT	1,849	2,634	1,893	2,867	(2.3)	(8.1)
EPS	54.9	78.2	56.2	85.1	(2.3)	(8.1)
EBITDA margin (%)	7.2	7.7	7.5	7.9	(30bps)	(20bps)

Source: Company, BOBCAPS Research

Fig 6 – Peer comparison

Ticker	Revenue (Rs bn)				EBITDA (Rs bn)				EBITDA Margin (%)			PAT (Rs bn)				P/E (x)		
	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E
DIXON	107	171	220	44	3.8	6.4	8.4	48	3.6	3.8	3.8	1.9	3.5	4.8	59	88	48	35
AMBER	42	58	74	32	2.8	4.2	5.6	43	6.5	7.2	7.7	1.1	1.8	2.6	54	69	41	29

Source: Company, BOBCAPS Research

Key risks

- **Upside:** Above-expected market share gains
- **Downside:** Lower outsourcing from OEMs

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.0	2,272	2,300	HOLD
Blue Star	BLSTR IN	1.2	1,010	1,100	HOLD
Crompton Greaves	CROMPTON IN	3.0	375	500	BUY
Dixon Technologies	DIXON IN	2.8	3,798	4,500	BUY
Havells India	HAVL IN	10.3	1,305	1,500	BUY
Orient Electric	ORIENTEL IN	0.7	261	310	HOLD
Polycab India	POLYCAB IN	4.4	2,360	3,000	BUY
V-Guard Industries	VGRD IN	1.3	239	250	HOLD
Voltas	VOLT IN	4.1	982	1,100	HOLD
Whirlpool India	WHIRL IN	2.9	1,802	2,901	BUY

Source: BOBCAPS Research, NSE | Price as of 8 Aug 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Total revenue	39,628	30,305	42,064	57,971	73,795
EBITDA	3,093	2,203	2,754	4,193	5,647
Depreciation	848	923	1,079	1,481	1,826
EBIT	2,245	1,280	1,675	2,712	3,820
Net interest inc./(exp.)	(419)	(410)	(464)	(607)	(739)
Other inc./(exp.)	82	331	332	366	439
Exceptional items	0	0	0	0	0
EBT	1,907	1,201	1,543	2,470	3,520
Income taxes	266	369	429	622	886
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	1,641	833	1,113	1,849	2,634
Adjustments	0	0	0	0	0
Adjusted net profit	1,641	833	1,113	1,849	2,634

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	11,068	13,169	17,021	23,506	29,922
Other current liabilities	1,583	1,402	2,263	3,119	3,970
Provisions	0	0	0	0	0
Debt funds	3,205	3,843	10,318	12,140	14,772
Other liabilities	1,888	1,410	2,180	2,858	3,533
Equity capital	314	337	337	337	337
Reserves & surplus	10,970	15,704	17,005	18,854	21,488
Shareholders' fund	11,284	16,041	17,342	19,191	21,825
Total liab. and equities	29,028	35,866	49,125	60,814	74,023
Cash and cash eq.	1,203	2,899	5,626	4,134	7,049
Accounts receivables	8,542	10,690	13,149	18,106	23,058
Inventories	6,557	7,163	8,408	11,594	14,755
Other current assets	1,030	1,207	2,497	3,441	4,380
Investments	0	0	0	0	0
Net fixed assets	7,475	7,864	10,791	13,310	12,984
CWIP	32	288	1,056	1,455	1,852
Intangible assets	3,669	3,721	4,487	4,487	4,487
Deferred tax assets, net	0	0	0	0	0
Other assets	520	2,033	3,110	4,287	5,457
Total assets	29,028	35,866	49,125	60,814	74,023

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash flow from operations	1,907	2,051	1,418	1,583	2,676
Capital expenditures	(1,449)	(1,845)	(4,137)	(4,000)	(1,500)
Change in investments	(1,633)	(1,433)	(1,482)	0	0
Other investing cash flows	(183)	(1,531)	(1,365)	(897)	(893)
Cash flow from investing	(3,266)	(4,810)	(6,984)	(4,897)	(2,393)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	1,209	4,097	6,031	1,822	2,632
Interest expenses	0	0	0	0	0
Dividends paid	(575)	(397)	(476)	0	0
Other financing cash flows	0	0	0	0	0
Cash flow from financing	634	3,700	5,555	1,822	2,632
Chg in cash & cash eq.	(725)	941	(11)	(1,492)	2,915
Closing cash & cash eq.	1,203	2,899	5,626	4,134	7,049

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	48.7	24.7	33.0	54.9	78.2
Adjusted EPS	48.7	24.7	33.0	54.9	78.2
Dividend per share	3.2	0.0	0.0	0.0	0.0
Book value per share	334.9	476.1	514.7	569.6	647.7

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	1.9	2.5	1.8	1.3	1.0
EV/EBITDA	24.8	34.8	27.8	18.3	13.6
Adjusted P/E	46.6	91.9	68.8	41.4	29.1
P/BV	6.8	4.8	4.4	4.0	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	86.1	69.3	72.2	74.8	74.8
Interest burden (PBT/EBIT)	85.0	93.9	92.1	91.1	92.1
EBIT margin (EBIT/Revenue)	5.7	4.2	4.0	4.7	5.2
Asset turnover (Rev./Avg TA)	5.3	3.9	3.9	4.4	5.7
Leverage (Avg TA/Avg Equity)	0.7	0.6	0.6	0.7	0.6
Adjusted ROAE	15.5	6.1	6.7	10.1	12.8

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
YoY growth (%)					
Revenue	44.0	(23.5)	38.8	37.8	27.3
EBITDA	45.3	(28.8)	25.0	52.2	34.7
Adjusted EPS	73.2	(49.3)	33.7	66.1	42.5
Profitability & Return ratios (%)					
EBITDA margin	7.8	7.3	6.5	7.2	7.7
EBIT margin	5.7	4.2	4.0	4.7	5.2
Adjusted profit margin	4.1	2.7	2.6	3.2	3.6
Adjusted ROAE	15.5	6.1	6.7	10.1	12.8
ROCE	14.7	6.4	6.0	7.7	9.3
Working capital days (days)					
Receivables	79	129	114	114	114
Inventory	60	86	73	73	73
Payables	102	159	148	148	148
Ratios (x)					
Gross asset turnover	4.2	2.8	3.2	3.4	3.8
Current ratio	1.2	1.3	1.1	1.0	1.1
Net interest coverage ratio	5.4	3.1	3.6	4.5	5.2
Adjusted debt/equity	0.3	0.2	0.6	0.6	0.7

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

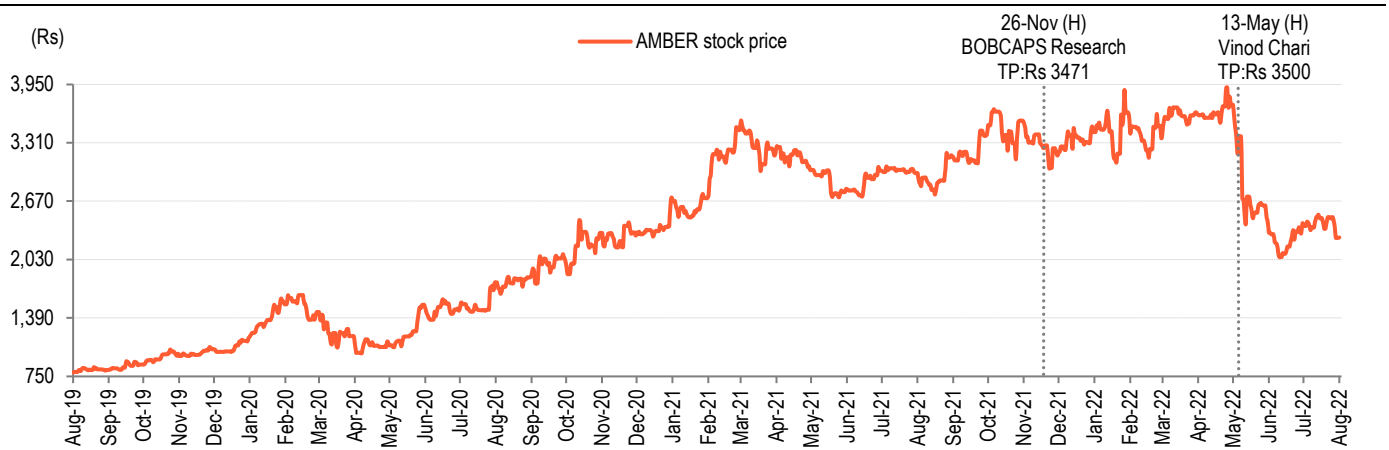
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): AMBER ENTERPRISES (AMBER IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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