

SELL
 TP: Rs 3,200 | ▼ 13%

AMBER ENTERPRISES

Consumer Durables

12 February 2024

Persistent near-term challenges; cut to SELL

- Q3 a muted quarter with net loss of Rs 5mn due to lower revenue and higher interest and depreciation costs
- Headwinds continue in RAC business as more customers move production in-house; diversifying to limit risk
- Near-term challenges and a 30% run-up in stock price drive our downgrade to SELL; TP revised to Rs 3,200 (vs. Rs 2,900)

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Muted quarter: Amber’s topline declined 4% YoY to Rs 12.9bn in Q3FY24 and EBITDA was flat at Rs 785mn. Operating margin inched up 20bps to 6.1%, likely due to a favourable change in product mix as the contribution of components increased. The company, however, reported a Rs 5mn loss due to high interest and depreciation.

Mobility segment stands out: The consumer durables and electronics businesses contracted 15% and 8% YoY to Rs 9.3bn and Rs 2.4bn respectively during Q3, while mobility revenue at Rs 1.2bn grew 11% YoY. Sidwal’s mobility order book stood at Rs 11.6bn at the quarter’s end, with further visibility of Rs 8.5bn from Vande Bharat trains and the Pune metro. Management expects the electronics and mobility businesses to grow rapidly amid burgeoning business opportunities.

Challenges in core RAC business persist...: Amber acknowledged that most room AC (RAC) customers have shifted to in-house production, with two more customers likely to do so in the next couple of quarters. This has led the company to switch focus to non-RAC components, with a market share target of 28%.

...leading to diversification to EMS and railways: Amber’s recent purchase of a 60% stake in Ascent Circuits helps enhance its electronics manufacturing services (EMS) portfolio and facilitates backward integration into the passive components of printed circuit board (PCB) assemblies. It has also signed an MoU with Korea Circuits to cater to mobiles and semiconductors. Similarly, it has a JV with Titagarh Rail Systems through Sidwal, where it will provide coach ACs, interiors, toilets and pantographs. This will enable it to service Vande Bharat and metro trains and takes its addressable market to Rs 20mn per coach (~25% of coach cost) from Rs 3mn now.

Near-term challenges; cut to SELL: We cut FY24/FY25 EPS estimates by 26%/24% given the 9MFY24 performance and management’s soft near-term commentary but raise FY26 EPS by 16% to bake in an improved outlook for the non-AC business. We continue to value the stock at 29x P/E – a 40% discount to the 3Y mean. On rolling valuations over to Dec’25E, we arrive at a new TP of Rs 3,200 (vs. Rs 2,900). The stock has run up 30% since our last update and hence we downgrade it from HOLD to SELL.

Key changes

Target	Rating
▲	▼

Ticker/Price	AMBER IN/Rs 3,697
Market cap	US\$ 1.5bn
Free float	60%
3M ADV	US\$ 7.9mn
52wk high/low	Rs 4,614/Rs 1,763
Promoter/FPI/DII	40%/24%/14%

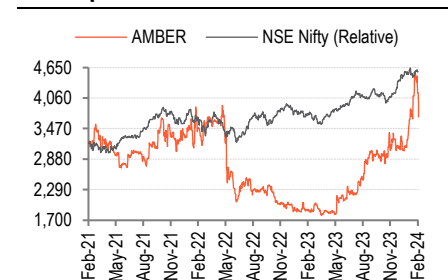
Source: NSE | Price as of 12 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	69,271	71,945	86,582
EBITDA (Rs mn)	4,179	4,977	6,031
Adj. net profit (Rs mn)	1,572	1,551	2,297
Adj. EPS (Rs)	46.7	46.0	68.2
Consensus EPS (Rs)	46.7	62.0	90.0
Adj. ROAE (%)	8.6	7.8	10.6
Adj. P/E (x)	79.2	80.3	54.2
EV/EBITDA (x)	29.8	25.0	20.7
Adj. EPS growth (%)	44.0	(1.3)	48.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	12,948	13,483	(4.0)	9,271	39.7	39,238	39,245	(0.0)
EBITDA	785	785	(0.0)	596	31.8	2,700	2,144	25.9
EBITDA Margin (%)	6.1	5.8	20bps	6.4	(40bps)	7	5	140bps
Depreciation	466	363		452		1,351	1,003	
Interest	369	289		366		1,187	744	
Other Income	52	89		127		373	340	
PBT	3	222	(98.7)	(95)	(103.1)	535	737	(27.4)
Tax	8	71		(38)		131	181	
Adjusted PAT	(5)	142	(103.6)	(57)	(90.9)	404	557	(27.4)
Exceptional item	-	-		0		0	0	
Reported PAT	(5)	142	(103.6)	(57)	(90.9)	395	532	(25.8)
Adj. PAT Margin (%)	0.0	1.0	(110bps)	(0.6)	60bps	1	1	(40bps)
EPS (Rs)	(0.2)	4.5	(103.4)	(1.7)	(90.9)	12	17	(27.4)

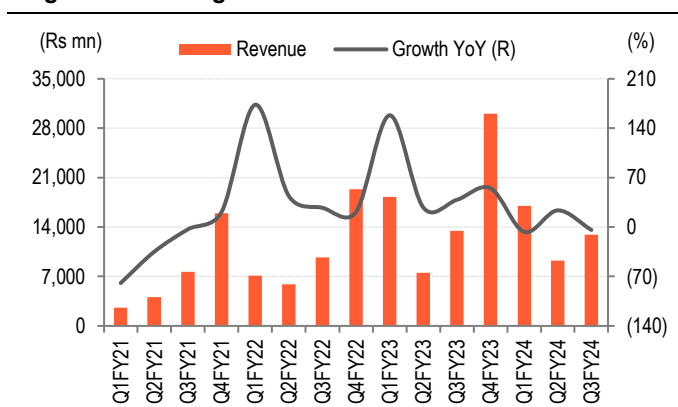
Source: Company, BOBCAPS Research

Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Revenue							
Mobility	950	1,050	1,100	1,130	1,040	1,320	1,220
Growth YoY (%)	428	110	75	38	9	26	11
Electronics	2,080	2,410	2,610	4,150	2,670	2,480	2,410
Growth YoY (%)	478	503	226	69	28	3	(8)
Consumer Durables	15,230	4,040	10,970	24,760	13,310	5,470	9,320
Growth YoY (%)	133	(19)	34	54	(13)	35	(15)
EBIT							
Mobility	260	250	200	280	210	310	240
EBIT Margin (%)	27.4	23.8	18.2	24.8	20.2	23.5	19.7
Electronics	90	80	130	210	110	130	120
EBIT Margin (%)	4.3	3.3	5.0	5.1	4.1	5.2	5.0
Consumer Durables	960	170	550	1,560	1,060	210	460
EBIT Margin (%)	6.3	4.2	5.0	6.3	8.0	3.8	4.9

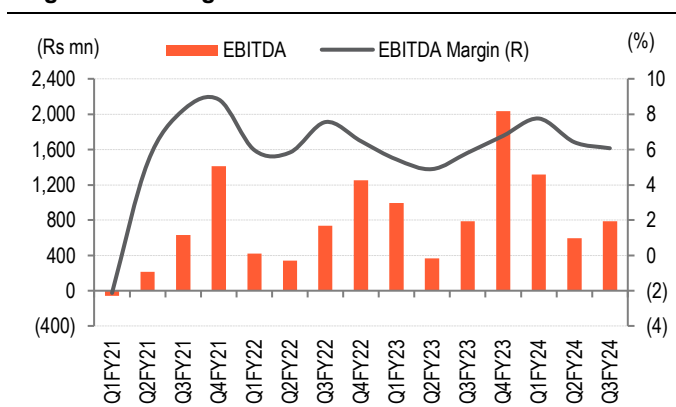
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



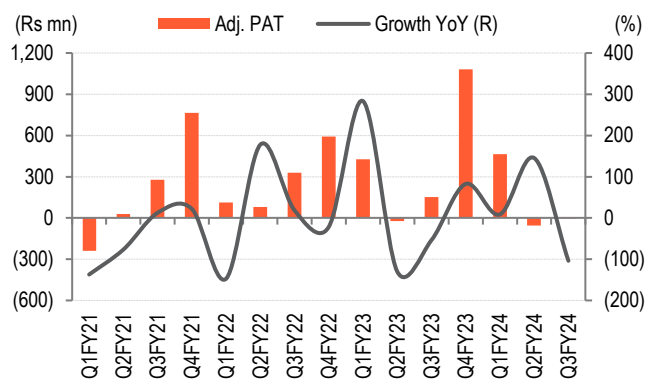
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



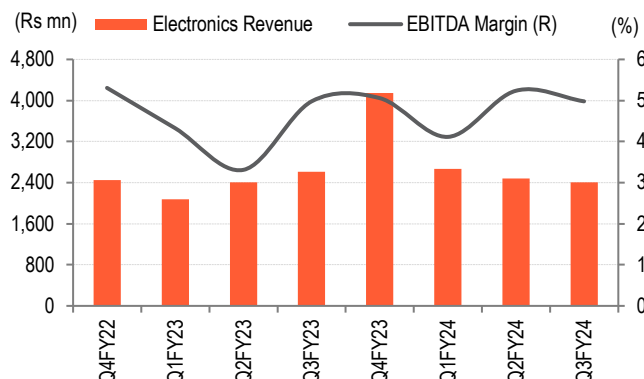
Source: Company, BOBCAPS Research

Fig 5 – Net profit growth



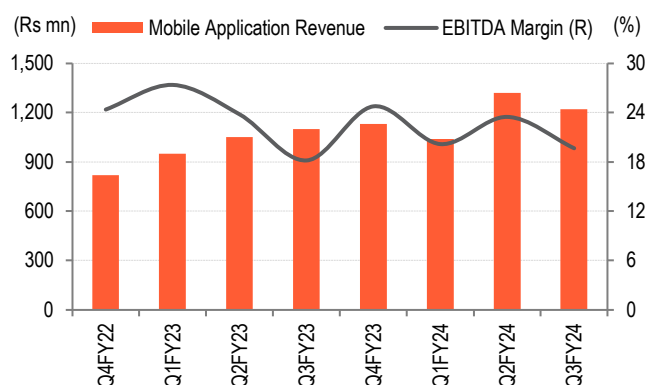
Source: Company, BOBCAPS Research

Fig 6 – Electronics business growth



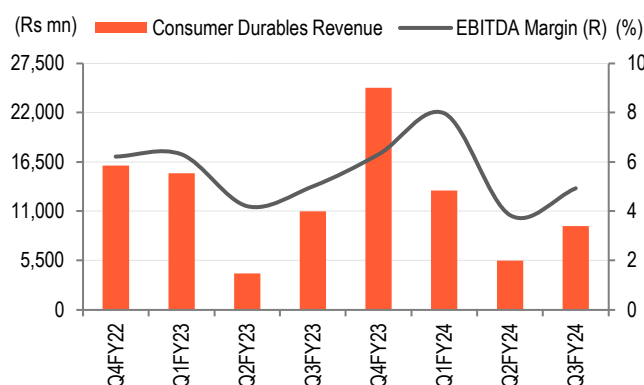
Source: Company, BOBCAPS Research

Fig 7 – Mobile application business growth



Source: Company, BOBCAPS Research

Fig 8 – Consumer durables business growth



Source: Company, BOBCAPS Research

Earnings call highlights

- Business outlook:** Management expects revenue to be volatile for the next few quarters as customers are shifting to in-house RAC manufacturing, but aims to reach 19-21% ROCE by FY27. Amber expects to earn ~7% operating margins in its consumer durables and electronics segments and more than 20% margins in the rail business.
- RAC business:** Amber’s RAC business contributed 38% of the topline in Q3FY24 as compared to 70% in FY18. Management expects this contribution to further reduce to 28-30% over the next two years.
- Product mix diversification:** With RAC set to decline in the mix, Amber is expanding into non-RAC components for other sectors, such as telecom, smart meters, automobiles, refrigeration, washing machines and microwave parts. Management expects new businesses to be profit-accretive from H2FY26.
- Rail and mobility business:** To further augment the rail and mobility business, Amber has formed a 50:50 joint venture with Titagarh Rail Systems through its subsidiary Sidwal, with both entities investing Rs 1.2bn each. Amber earlier catered to orders worth Rs 2.5mn-3mn per passenger coach through its RAC segment, as against a total material bill of ~Rs 60mn per coach. With the new JV, it is expanding

into doors, gangways, pantry systems, couplers, interiors, toilets, pathways and pantographs, which sums up to ~Rs 20mn per coach.

Demand for these products is expected to come from the government's recently announced plans to add ~600 metro cars per year and 3,000 Vande Bharat trains. Sidwal is expected to continue making a 20-22% operating margin. The subsidiary's current order book stands at Rs 11.6bn, along with a Letter of Intent (LOI) from Titagarh Rail for Vande Bharat and Pune metro coaches to the tune of Rs 8.5bn.

PCB business: Amber has acquired a 60% stake in Ascent Circuits and has signed an MoU with Korea Circuits to further grow its PCB business. Ascent has an order book of Rs 8bn and earns EBITDA margins of 19-20%. PCBs contribute ~25% of Amber's electronics business and this category has declined more than 10% YoY in Q3FY24 due to high inventory with customers. Management expects inventory liquidation to have taken place in the new year and hence anticipates a pickup in PCB buying. Additionally, a proposed 30% anti-dumping duty is likely to boost the indigenous PCB market.

Management sees large opportunities in this product category as more sectors are being electrified, including automobiles, consumer durables, defence, aerospace and aviation. Amber expects its electronics segment revenue to double in the next two years along with margin expansion.

- **Capex:** The company has incurred capex of Rs 2.6bn in 9MFY24 and is also planning expansion in Sidwal with an outlay of Rs 2.3bn over the next two years. Additionally, it is looking at greenfield capacities in Faridabad, in addition to two facilities to be housed under its JV for interiors, couplers and other rail components.

Valuation methodology

We cut our FY24/FY25 EPS estimates by 26%/24% given Amber’s 9MFY24 performance and management’s soft near-term commentary but raise FY26 EPS by 16% to bake in an improved outlook for the non-AC business. We continue to value the stock at 29x P/E – a 40% discount to the three-year mean. On rolling valuations over to Dec’25E, we arrive at a new TP of Rs 3,200 (vs. Rs 2,900). The stock has run up 30% since [our last update](#) and hence we downgrade it from HOLD to SELL.

Fig 9 – Revised estimates

Particulars (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	71,945	86,582	1,20,794	85,232	1,01,221	1,18,056	(15.6)	(14.5)	2.3
EBITDA	4,977	6,031	8,638	5,258	6,596	7,320	(5.3)	(8.6)	18.0
PAT	1,551	2,297	4,237	2,097	3,011	3,664	(26.1)	(23.7)	15.6
EPS (Rs)	46.0	68.2	125.8	62.3	89.4	108.7	(26.1)	(23.7)	15.7
EBITDA Margin (%)	6.9	7.0	7.2	6.2	6.5	6.2	70bps	40bps	90bps

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- better-than anticipated growth in newer verticals, and
- return of customers in the RAC business.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.5	3,697	3,200	SELL
Blue Star	BLSTR IN	2.7	1,152	1,300	BUY
Crompton Greaves	CROMPTON IN	2.2	284	330	BUY
Dixon Technologies	DIXON IN	4.5	6,269	6,900	BUY
Havells India	HAVL IN	10.2	1,333	1,600	BUY
KEI Industries	KEII IN	3.5	3,221	3,120	HOLD
Orient Electric	ORIENTEL IN	0.5	202	240	HOLD
Polycab India	POLYCAB IN	7.9	4,345	5,200	BUY
Syrma SGS	SYRMA IN	1.1	500	550	HOLD
V-Guard Industries	VGRD IN	1.6	307	310	HOLD
Voltas	VOLT IN	4.3	1,075	1,060	HOLD

Source: BOBCAPS Research, NSE | Price as of 12 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	42,064	69,271	71,945	86,582	1,20,794
EBITDA	2,754	4,179	4,977	6,031	8,638
Depreciation	1,079	1,391	1,879	2,059	2,210
EBIT	1,675	2,788	3,099	3,971	6,428
Net interest inc./(exp.)	(464)	(1,118)	(1,570)	(1,571)	(1,588)
Other inc./(exp.)	332	527	632	758	910
Exceptional items	0	0	0	0	0
EBT	1,543	2,197	2,161	3,158	5,750
Income taxes	429	559	544	795	1,447
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	1,092	1,572	1,551	2,297	4,237
Adjustments	0	0	0	0	0
Adjusted net profit	1,092	1,572	1,551	2,297	4,237

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	17,021	23,039	29,172	35,107	48,979
Other current liabilities	2,263	3,778	3,871	4,658	6,499
Provisions	0	0	0	0	0
Debt funds	10,318	13,437	10,467	12,088	15,877
Other liabilities	2,180	3,091	3,193	3,751	5,054
Equity capital	337	337	337	337	337
Reserves & surplus	17,005	18,751	20,235	22,431	26,567
Shareholders' fund	17,342	19,088	20,572	22,768	26,904
Total liab. and equities	49,125	62,433	67,275	78,373	1,03,314
Cash and cash eq.	5,626	5,594	3,780	9,139	14,998
Accounts receivables	13,149	17,631	20,401	23,294	33,375
Inventories	8,408	10,913	12,858	14,557	20,948
Other current assets	2,497	4,227	4,390	5,283	7,371
Investments	0	0	0	0	0
Net fixed assets	10,791	17,891	19,612	19,553	19,344
CWIP	1,056	130	135	162	226
Intangible assets	4,487	4,698	4,698	4,698	4,698
Deferred tax assets, net	0	0	0	0	0
Other assets	3,110	1,350	1,402	1,687	2,354
Total assets	49,125	62,433	67,275	78,373	1,03,314

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	1,418	3,206	4,778	5,594	3,599
Capital expenditures	(4,137)	(6,535)	(3,600)	(2,000)	(2,000)
Change in investments	(1,482)	1,337	0	0	0
Other investing cash flows	(1,365)	310	45	245	573
Cash flow from investing	(6,984)	(4,888)	(3,555)	(1,755)	(1,427)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	6,031	3,025	(2,970)	1,621	3,789
Interest expenses	0	0	0	0	0
Dividends paid	(476)	(1,097)	(67)	(101)	(101)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	5,555	1,928	(3,037)	1,520	3,688
Chg in cash & cash eq.	(11)	246	(1,815)	5,359	5,860
Closing cash & cash eq.	5,626	5,594	3,780	9,139	14,998

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	32.4	46.7	46.0	68.2	125.8
Adjusted EPS	32.4	46.7	46.0	68.2	125.8
Dividend per share	1.6	0.0	2.0	3.0	3.0
Book value per share	514.7	566.5	610.5	675.7	798.5

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.0	1.8	1.7	1.4	1.0
EV/EBITDA	45.2	29.8	25.0	20.7	14.4
Adjusted P/E	114.1	79.2	80.3	54.2	29.4
P/BV	7.2	6.5	6.1	5.5	4.6

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	70.8	71.6	71.8	72.7	73.7
Interest burden (PBT/EBIT)	92.1	78.8	69.7	79.5	89.5
EBIT margin (EBIT/Revenue)	4.0	4.0	4.3	4.6	5.3
Asset turnover (Rev./Avg TA)	3.9	3.9	3.7	4.4	6.2
Leverage (Avg TA/Avg Equity)	0.6	1.0	1.0	0.9	0.8
Adjusted ROAE	6.5	8.6	7.8	10.6	17.1

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	38.8	64.7	3.9	20.3	39.5
EBITDA	25.0	51.8	19.1	21.2	43.2
Adjusted EPS	31.1	44.0	(1.3)	48.1	84.4
Profitability & Return ratios (%)					
EBITDA margin	6.5	6.0	6.9	7.0	7.2
EBIT margin	4.0	4.0	4.3	4.6	5.3
Adjusted profit margin	2.6	2.3	2.2	2.7	3.5
Adjusted ROAE	6.5	8.6	7.8	10.6	17.1
ROCE	5.9	7.9	8.5	10.4	13.8
Working capital days (days)					
Receivables	114	93	103	98	101
Inventory	73	58	65	61	63
Payables	148	121	148	148	148
Ratios (x)					
Gross asset turnover	3.2	3.6	2.9	3.1	4.0
Current ratio	1.1	1.1	1.0	1.1	1.1
Net interest coverage ratio	3.6	2.5	2.0	2.5	4.0
Adjusted debt/equity	0.6	0.7	0.5	0.5	0.6

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

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BUY – Expected return >+15%

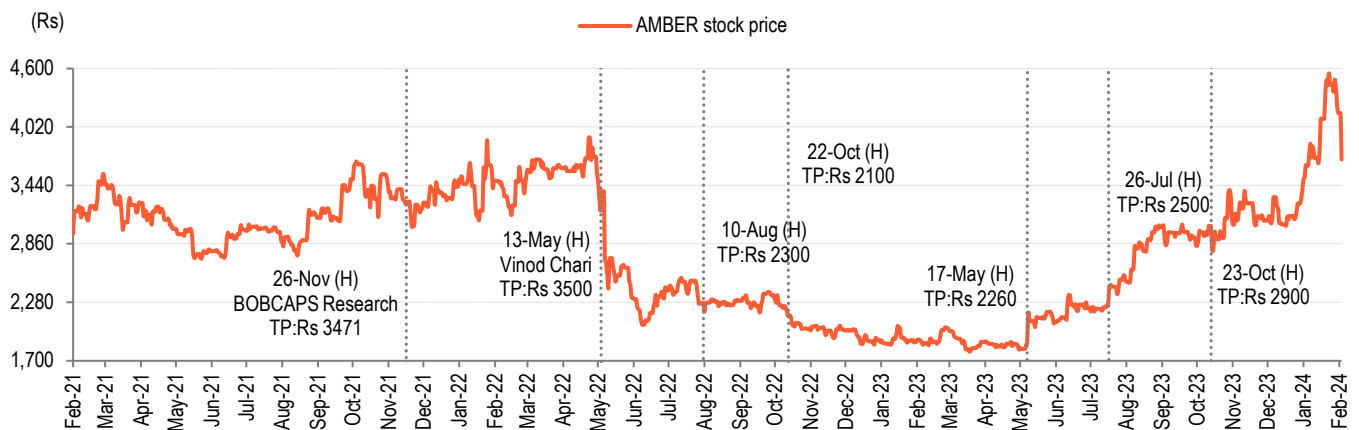
HOLD – Expected return from -6% to +15%

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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