SMART SYNC SERVICES

Amber Enterprises Q1FY21

Financial Results & Highlights

Brief Introduction:

Amber Enterprises India is engaged in the business of manufacturing a versatile range of products i.e. Air conditioners, microwave ovens, washing machines, refrigerators, heat exchangers, sheet metal components etc. Currently, the Company has nine manufacturing facilities in India out of which two manufacturing facilities are operating in tax exemption zone.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	194	1001	-80.62%	1045	-81.44%
PBT	-29	76	-138.16%	52	-155.77%
PAT	-19	49	-138.78%	53	-135.85%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	262	1242	-78.90%	1315	-80.08%
PBT	-36	92	-139.13%	70	-151.43%
PAT	-24	64	-137.50%	63	-138.10%

Detailed Results:

1. The company dismal quarter with a decline of 79% YoY in consolidated revenues while consolidated profits fell to a loss of Rs 24 Cr.
2. Operating EBITDA for Amber was at Rs (3) Cr.
3. The pent-up demand from retail-led to the release of high inventory levels from the channel, which in turn led to an increase in manufacturing orders by OEMs.
4. The management expects normalcy to return by Q3/Q4.
5. The consolidated revenue mix changed from 69:31 to 61:39 for RAC: Components respectively.
6. The increase in contribution was due to early resumptions and order execution from Sidwal for the Mobility Application business.
7. The performance for subsidiaries was:
    1. Sidwal: Sales of Rs 30.1 Cr, EBITDA of Rs 5 Cr
    2. IL JIN: Sales of Rs 16.7 Cr, EBITDA of Rs (1.7) Cr
    3. EVER: Sales of Rs 16.8 Cr, EBITDA of Rs (1.2) Cr

4. PICL: Sales of Rs 8 Cr, EBITDA of Rs (1.8) Cr

Investor Conference Call Highlights:

1. The company was operating at 50-60% capacity in June.
2. The Govt of India is looking to implement a phased manufacturing plan, for room air conditioner and its components, under which import duties will be hiked in a phased manner over the period of 5 years; to bring air conditioners under the licensing system, and to also introduce a production-linked incentive scheme for air conditioners.
3. The company is also seeing good inquiries and RFQs from global RAC players for China Plus One strategy for both finished units & components.
4. PICL has successfully widened its product offering from current PFC motors to BLDC motors and is in discussion with various customers to launch motors for washing machines and higher-voltage motors for commercial leasing segment. It has also been approached with RFQs from various large global manufacturers based out of the U.S. and the Middle East. The management expects PICL to double in revenues in the next 2 years.
5. The management remains confident of increasing market share for IL JIN and EVER as the market moves towards inverter ACs.
6. The order book in July was at 65-70% of last year's figure. The company saw around 1.5 million RAC units moving out of inventory in Q1.
7. The company is developing prototype models for the USA which it expects to launch by December or January. The company may need to add additional capacity once policy reforms are announced for the AC industry. The company currently has an annual capacity of 5 million units.
8. The expected capex for these estimated expansions is around Rs 150 Cr which is to be distributed across 2 years.
9. The management expects the component ecosystem to rise due to the PLI schemes for the RAC industry which will be beneficial for the company even if it doesn't manage to get any gains in the RAC space.
10. The net working capital days for Sidwal were reduced from 180 to almost 83. Sidwal also plays a role in defense applications. This margin expectation for Sidwal remains strong.
11. The company has already gotten an order from a Japanese client for washing machine motors from PICL. It is also developing a unique motor for US markets.
12. The company has taken an enabling provision up to Rs 500 Cr capital raise. This can be used for both organic (expanding production capacity) or inorganic (acquisition) opportunities.
13. The compressor ecosystem is starting to come up in India. There is a company in Ahmedabad called Highly which has 2.4 million capacity while GMCC, the largest compressor manufacturer in the world, is also opening up a factory in India with an initial capacity of 1.5 million which can be scaled up to 6 million. A large Japanese player is also looking to add a compressor plant in India.

All in all, the management believe that dependence on China for compressors will come down a lot in the next 2 years.

14. The industry is has done a joint meeting with Hindalco for setting up a facility for aluminum foil which is instrumental in making PCB invertor boards.
15. Volumes sold in Q1 were at almost 200,000 units vs almost 1 million sold last year.
16. Margins were down for the quarter because the majority of sales were for IDUs which are mostly imported.
17. Gross debt for the company is at Rs 550 Cr while cash is at Rs 150 Cr.
18. The management expects around 35% of motors business to come from exports as compared to only 10% last year.
19. The company is competitive in all segments except some in finished goods for 1 ton and below.
20. The management has stated that it will take some time for the company to properly scale up exports especially for components as it takes about 4 to 5 years to build up being a standard supplier to any large customer or multinational companies.
21. According to the management, the basic weak spot for the compressor ecosystem is the basic RM of electrical steel which is import-dependent.
22. The company has bagged orders of Rs 115 Cr since that start of the pandemic. Its order book currently stands at Rs 555 Cr.
23. The maintenance capex per year for the company is currently at Rs 28-30 Cr.
24. The management has stated that the company can deliver around 8-9 times asset turnover in motors while in heat exchangers it can deliver up to 5 times.
25. The PLI scheme has not been finalized but it is expected to have 3 main objectives which are:
    - Cater to exports
    - Create global Indian champions by making them more competitive
26. The management believes that Amber is well suited for this scheme as it is the most backward integrated with the industry and it has a good position in the components ecosystem and export prospects.
27. The competitive landscape of the AC industry in India is expected to remain the same and only the import dependence is expected to reduce due to the proposed changes in the industry.

Analyst's View:

Amber Enterprises has cemented its position as a prime AC and white good components manufacturer in India. The performance of the quarter was marred by the disruption from COVID-19. The demand has been steadily rising since after the lockdown. The industry is widely expected to come back to normalcy by Q3/Q4. Despite the loss of sales and reduced activity in 3 of the peak months for the company, the management is optimistic about the company's prospects due to the increased opportunity from import substitution of Chinese products in RAC and components businesses as well as the upcoming PLI scheme for the RAC industry. It remains to be seen whether there are any more large scale manufacturing disruptions to come from COVID-19 and whether the company will be able to maintain its optimistic expectations in the exports and components space. Nonetheless, given the massive opportunity size from import substitution, the growth prospects of the industry, and the company's dominant position in the ODM market, Amber Enterprises remains a pivotal stock in the fast-rising air conditioning industry.