

Amber Enterprises Q2FY21

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) | | | | | | | | |
|----------------------------------|--------|--------|----------|--------|---------|--------|--------|----------|
| | Q2FY21 | Q2FY20 | YoY % | Q1FY21 | QoQ % | H1FY21 | H1FY20 | YoY |
| Sales | 233 | 393 | -40.71% | 194 | 20.10% | 427 | 1394 | -69.37% |
| PBT | -15 | -5 | -200.00% | -29 | 48.28% | -44 | 71 | -161.97% |
| PAT | -9 | 5 | -280.00% | -19 | 52.63% | -27 | 53 | -150.94% |
| Consolidated Financials (In Crs) | | | | | | | | |
| | Q2FY21 | Q2FY20 | YoY % | Q1FY21 | QoQ % | H1FY21 | H1FY20 | YoY |
| Sales | 421 | 623 | -32.42% | 262 | 60.69% | 683 | 1865 | -63.38% |
| PBT | -1 | 5 | -112.00% | -36 | 98.33% | -36 | 96 | -137.50% |
| PAT | 3* | 12** | -75.00% | -24 | 112.50% | -21*** | 77 | -127.27% |

*Contains negative tax expense of Rs 4 Cr

**Contains negative tax expense of Rs 7 Cr

***Contains negative tax expense of Rs 15 Cr

Detailed Results:

1. The company dismal quarter with a decline of 32% YoY in consolidated revenues while consolidated profits fell to Rs 3 Cr.
2. Operating EBITDA for Amber was at Rs 22 Cr with margin at 5.4%.
3. The management expects normalcy to return in H2.
4. ~Rs.4000 crs of RACs were being imported in India of which 70-75% consisted of Completely Build Units have been banned for import. This creates significant opportunity for local manufacturers.
5. The consolidated revenue mix changed to 64:36 from 50:50 for RAC: Components+Mobility respectively.

Investor Conference Call Highlights:

1. The ban on import of refrigerant fill RACs has created an additional opportunity of Rs 4,000 Cr for local manufacturers.

2. Amber successfully completed a QIP of Rs 400 Cr in Q2 which got oversubscribed by more than 5.5x. The money raised from QIP has been temporarily being used for paying off the debt, CapEx, working capital, and acquisition of the balance 20% stake of Sidwal.
3. The company is getting inquiries, RFQs from big global players for RACs as well as components as per the China Plus One strategy.
4. Q2 revenues for Sidwal was at Rs 47 Cr with operating EBITDA at Rs 13 Cr. H1 revenues were at Rs 77 Cr with operating EBITDA at Rs 18 Cr and EBITDA margins of 22%.
5. Q2 revenues for PICL was at Rs 17 Cr with operating EBITDA loss at Rs 0.6 Cr.
6. PICL has successfully widened its product offering from current PFC motors to BLDC motors. PICL is also in discussion with various customers to launch motors for washing machines and higher voltage motors for the commercial AC segment. It has also been approached with RFQs from various large global manufacturers based out of the U.S. and the Middle East.
7. Q2 revenues for IL JIN was at Rs 81 Cr with operating EBITDA at 7.4% vs 5.7% last year. Q2 revenues for Ever was at Rs 45 Cr with operating EBITDA at 5.9% vs 5.4% last year.
8. Inventory levels in the industry have normalized to pre-covid levels.
9. The management expects Q4 to be a positive quarter for the industry.
10. February and March is when the management is expecting a volume increase from this ban on the refrigerant air conditioner import. Largely the impact is expected to be reflected in the next financial year.
11. Volumes for Q2 were at 1.9 lac units. Capacity utilization was at 45-50%.
12. In components. The company is expecting export orders to come in from FY22 onwards as the development cycle gets completed in FY21.
13. The company's first sample will be ready to be shipped out by January and the rest of FY21 will be reliability testing and approval cycles. FY22 is when export orders should start coming in.
14. Amber has started exporting motors and heat exchangers and is talking to some customers for PCBs.
15. PICL revenue mix is 20% is exported and 80% is domestic. This ratio is expected to become 60:40 in the coming 2 to 3 years' time.
16. In commercial AC, the company has recently launched 2 new products and is on track to build up the whole portfolio of about 18 to 20 products in the next 2 to 3 years' time.
17. The addressable market for commercial AC is around Rs 6500 Cr.
18. In Sidwal, 2 tenders from DMRC, Delhi Metro Corporation for Rs 98 Cr were won in Q2.
19. The current order book in Sidwal is at Rs 350 Cr which will be delivered in 18 to 24 months' time.
20. Industry decline in H1 is expected to be at 32-33% in H1.
21. The company added 4 new large customers since the announcement of the import ban. All of these 4 had been importing 100% of their requirement earlier. These new customers will start in February onwards.
22. On the RAC export front, China and Thailand are the 2 large exporters with volumes of 65 million, 80% from China and 20% from Thailand.
23. For the PCB board for IL JIN and Ever, the company has already started getting orders and has started shipping. Mass volumes will start picking up from the next financial year.
24. Currently, around 48% of the RAC industry is outsourced with Amber having a market share of 70% in it. The overall industry is growing at a CAGR of 12% while the ODM part is growing at a CAGR of 17-18%.

25. Even today, 75% of the components are imported. The import substitution opportunity in components is around Rs 5500-6000 Cr. The addressable market for components is \$ 2 billion without counting compressors.
26. 60% of component revenues came from non-AC components.
27. The long term revenues split in RACs and components is expected to be at 50:50.
28. USA & Middle East are 2 geographies that Amber is concentrating on currently.
29. The import ban opportunity in terms of volume is around 2.4 million units.
30. Of this 2.4 million, 70% was refrigerant filled of which Amber hopes to capture at least 55%.
31. Margin expansion in subsidiaries was due to lower expenses.
32. The company's goal is to reach 24% market share in the overall RAC market in India and have the rest 76% have some components in them made by Amber.
33. Amber currently has the widest range of products available in the complete room air conditioner range from starting from 0.75 ton to 2 ton in all-star categories from 1 star to 5-star and is doing inverter ACs also. On the component side, it has become a one-stop solution for all components except compressors.

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 continues to improve from the disruption from COVID-19 in the peak summer season. The demand has been steadily rising since after the lockdown. The industry is widely expected to come back to normalcy by 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 the import ban of refrigerant cooled products in RAC and the steadily rising components businesses. It remains to be seen whether there are any 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. However, the current valuation appears to be very stretched for the company.

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