SMART SYNC SERVICES

Amber Enterprises Q4FY20

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)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	1045.5	976	7.12%	569.6	83.55%	3008.6	2197.4	36.92%
PBT	52	89	-41.57%	6.2*	738.71%	128.9	132.9	-3.01%
PAT	53.2	61.5	-13.50%	11.5	362.61%	117.9	92.5	27.46%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	1315.2	1201.4	9.47%	790.6	66.35%	3970.9	2761.9	43.77%
PBT	70.1	93.9	-25.35%	24.5	186.12%	190.7	135.9	40.32%
PAT	62.8	66.8	-5.99%	24.8	153.23%	164.1	94.8	73.10%

*includes negative tax expenses of Rs 5.36 Cr

Detailed Results:

1. The company delivered a good YoY growth of 9.5% in consolidated revenues while consolidated profits fell 6% YoY in the same period in Q4 last year.
2. Performance for FY20 was very good with revenue growth of 44% YoY and PAT growth of 73% YoY.
3. EBITDA for FY20 rose 53% YoY while EBITDA margins improved 50 bps to 8.2%.
4. The revenue growth (and current revenue contributions) across operational segments for FY20 is:
    1. RAC (Room Air Conditioner): Up 39% YoY (61% of total revenues)
    2. Components & Mobile Applications: Up 52% YoY (39% of total revenues)
5. ROCE improved a lot in FY20 with an increase of 400 bps to 18.5%. ROE improved dramatically in the year with an improvement of 510 bps to 15.1% in FY20.
6. The company improved its working capital days dramatically with the number coming down to 37 days in FY20 from 54 days in FY19.

Investor Conference Call Highlights:

1. The management has stated that dealers had stocked inventory since the start of the lockdown and were liquidating it while the plants were shut down. Now that plants have opened up, there should be a revival in consumer demand.
2. The company does not see any impact on manufacturing activity from the unavailability of raw materials going forward.
3. The company is not facing any workforce issues as 80% of the workforce lives around the plant.
4. The current focus for the company going forward is to improve productivity and rationalize costs.
5. The management has stated that there may be an impact on the receivable cycle going forward due to the overall impact in the liquidity of the companies across countries.
6. The company does not see any major receivable risk as all of its customers are renowned and high quality.
7. The management has stated that there is a good opportunity for the company to benefit from The "China plus one" strategy and from the intent of many companies in India to reduce dependence on Chinese exporters. The company is already the biggest outsourced manufacturer in the RAC industry and the few players who used to import from China have also approached the company and are actively taking to it.
8. The company should also benefit from the drive-by the Indian government to reduce dependence on imports and the incentives provided to local manufacturers.
9. Revenues for Sidwal in FY20 stood Rs 226 Cr with EBITDA of Rs 63 Cr. Q4 revenues in this unit was Rs 65 Cr.
10. Revenue for PICL stood at Rs 185 Cr for FY20 and Rs 57 Cr for Q4. EBITDA for PICL was at Rs 11 Cr with EBITDA margin at 6%.
11. Revenue for IL JIN was at Rs 92 CR in FY20. Revenues for Ever was at Rs 83 Cr in FY20. The company is confident of rising revenue share for IL JIN and Ever due to the continued shift in the industry towards inverter ACs.
12. The management has stated that around 28% of ACs in value terms continue to be imported and there is a good chance for the company to cover this segment due to the government's push toward local manufacturers in the Atmanirbhar initiative. The 28% mentioned above is strictly in terms of finished units and compressors and components that are imported do not form part of this 28%.
13. The management has stated that it has seen a very robust demand revival in green zones due to the ongoing heatwave. This has also led to the depletion of dealer inventory at a fast rate which is expected to be liquidated in 15 to 20 days' time.
14. The management is very optimistic about the China substitution strategy for the components business. The company has already started exporting components to the USA.

15. The company expects the RAC components to go in a similar way as auto ancillaries and form a dominant portion of local manufacturing as government policies to reduce import dependence become more refined and efficient.

16. The management has also stated that the reliability cycle for various components is from 6 months to 1 year. So as more companies shift their vendor base to India, it will take at least one reliability cycle to be completed for the orders to start coming in.

17. The management has clarified that the company has developed models for commercial air conditioners for 7.5, 8.5, 11, 12.5-ton range. Production for these units will start in small volumes from the end of June onwards. The company will not be venturing into commercial refrigeration at present.

18. The opportunity size for the HVAC industry is around Rs 48000 Cr in India where RACs account for Rs 18000 Cr while the rest of the Rs 30000 Cr is for commercial air conditioning.

19. The company has seen a good rise in margins for all subsidiaries. In IL JIN and Ever, revenue growth was not as pronounced as the company let go of a few low margin businesses and has worked towards shifting the product mix towards higher margins.

20. The management has stated that the metro AC tender has been postponed to Q1FY21.

21. The management is expecting growth of 15-20% in Sidwal despite 0 sales in April.

22. The FX impact in Q4 was of a loss of Rs 16 Cr for reinstatement losses.

23. The management does not expect much impact from predatory pricing from Chinese exporters as it believes that the customs duties should be enough to safeguard the Indian industry players. Currently, all industry players are looking to liquidate inventory before issuing fresh orders and due to the COVID-19 situation and the government's push towards local manufacturing, dependence on Chinese exporters is widely expected to come down.

24. The management expects demand to rise in June and if for some reason, demand does not rise then, there might be demand spill over into the next quarter.

25. The revenue loss from lockdown is estimated to be around Rs 150 to Rs 160 Cr in Q4.

26. The tax rate for the standalone entity is expected to be 35% as there is still a lot of MAT credit to be run down. The subsidiaries will be taxed at the new rate of 22%.

27. The management has stated that though sales are expected to go down in South India during the monsoons, it should not fall as much as in North India during the same time period.

28. The company saw a 43% YoY rise in RAC volumes to over 3 million units from 2.1 million units a year ago.

29. The company has almost 22% market in RAC manufacturing in India currently. The market share in the ODM AC market is 55% currently.

30. The management does not see any strong competition in ODM rising up for at least 1-2 years despite the push for local manufacturing.

31. The management has stated that the "China plus one" strategy is applicable for overseas markets as well as many western economies are looking to reduce dependence on China and source alternative channels for RACs and components.
32. The management expects exports to become a significant contributor in 4-5 years' time.
33. The company is speeding up R&D activities to expand the finished product portfolio for customers. The new products include cassette ACs, smaller window ACs with lower tonnage, etc which were not present in the company's offerings earlier.
34. The company is also offering embedded solutions in its products for smarter usage in its products. It is also offering data projection mechanisms for its products for the Indian Railways.
35. The management expects conditions to normalize in 2-3 months and sales to reach 80-90% of normalized levels for FY21. The biggest issue that the management sees going forward is dollar fluctuations. Another major issue will be getting to use 100% manpower in its facilities which have been currently restricted due to government regulations on COVID-19.
36. The management has stated that 35-40 days can be considered sustainable levels of Working capital days at current and this number can go below 30 days in the medium term.
37. At present industry capacity is at 7 million units in India and while the same in China is 110 million units. Thus there is a big difference in scale there. But the management believes that once industry capacity crosses 10 million, the local manufacturing will become more competitive and by 20 million it can be at par with the Chinese on all terms.
38. In terms of capacity utilization, in the RAC business, utilizations can vary from 55% to 85% depending on seasonal demand. Similarly, components can also have differing utilizations with peak utilization at 75% while off-peak may have it at 40-45%.
39. The management has stated that the company has around Rs 2-2.5 Cr of maintenance CAPEX for each of its 15 plants. The other unavoidable component of CAPEX is R&D and product development which is around Rs 25 to 30 Cr.
40. In the ODM controller model, the company has a joint development program with Infineon. The product is ready and the company has offered it to customers for testing and it has received initial orders for ti.
41. The company currently has 4 customers for inverter PCB boards and 4 more customers are in the pipeline. The management estimate the additional opportunity size for Amber in inverter PCB boards to be around Rs 500-600 Cr in the next few years.
42. Currently, PICL is doing 90% domestic sales and 10% of exports. The management expects margins in this unit to improve to 7-8% by the next financial year.
43. The company also does around Rs 25-30 Cr of annual maintenance contracts for the Indian Railways.
44. There is little room for the company in the AC spare parts and servicing space as most of it is taken care of by the individual brands themselves.

45. The management expects debt levels to rise in Q1 & Q2 before normalizing. This increase will be mostly due to a delay in payment from a few customers which will constrain the credit cycle for the company.
46. The company is evaluating the compressor business and is not 100% sure of entering it yet. The company is looking more on the side of the electronic components of motors like BLDC motors which will a new offering by the company.

Analyst's View:

Amber Enterprises has cemented its position as a prime AC and white good components manufacturer in India. They have achieved phenomenal growth in the financial year 2020. The performance of the quarter was marred by the disruption from COVID-19 which has also caused a fall in sales for the company in April as well. The industry has not been affected much by this disruption since dealers have had enough inventory to tide the disruption. The company expects demand to slowly normalize over FY21. 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. It remains to be seen whether there are any more large scale manufacturing disruptions to come from COVID-19 and how the company will adapt to it. 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.