

## Amber Enterprises Q3FY21

### 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)   |        |        |         |        |          |        |        |          |
|----------------------------------|--------|--------|---------|--------|----------|--------|--------|----------|
|                                  | Q3FY21 | Q3FY20 | YoY %   | Q2FY21 | QoQ %    | 9MFY21 | 9MFY20 | YoY%     |
| Sales                            | 584    | 570    | 2.46%   | 233    | 150.64%  | 1011   | 1963   | -48.50%  |
| PBT                              | 27     | 6      | 350.00% | -15    | 280.00%  | -17    | 77     | -122.08% |
| PAT                              | 18     | 12     | 50.00%  | -9     | 300.00%  | -9     | 65     | -113.85% |
| Consolidated Financials (In Crs) |        |        |         |        |          |        |        |          |
|                                  | Q3FY21 | Q3FY20 | YoY %   | Q2FY21 | QoQ %    | 9MFY21 | 9MFY20 | YoY%     |
| Sales                            | 774    | 791    | -2.15%  | 421    | 83.85%   | 1457   | 2656   | -45.14%  |
| PBT                              | 40     | 24     | 67%     | -1     | 4100.00% | 4      | 121    | -96.69%  |
| PAT                              | 28     | 25     | 12%     | 3*     | 833.33%  | 7**    | 101    | -93.07%  |

\*Contains negative tax expense of Rs 3.4 Cr

\*\*Contains negative tax expense of Rs 3 Cr

#### Detailed Results:

1. The company modest quarter with a decline of 2% YoY in consolidated revenues while consolidated profits rose to Rs 28 Cr.
2. Operating EBITDA for Amber was at Rs 62 Cr with margin at 8.2%.
3. The consolidated revenue mix has remained unchanged from 55:45 to 54:46 in Q3 for RAC: Components+Mobility respectively.
4. 9M revenue mix has come to 50:50 from 60:40.
5. Amber has signed 6 new customers since the import ban on Air conditioners with Refrigerants.
6. The Company has bought land in Supa region near Pune for its upcoming greenfield project.

#### Investor Conference Call Highlights:

1. The PLI scheme for ACs and components is of Rs 5000 Cr and details of this scheme are expected to be finalized soon.

2. Q3 FY21 revenues for Sidwal stood at Rs 44 Cr, operating EBITDA stood at Rs 9 Cr and margin stood at 21.4%. 9M revenues for Sidwal stood at Rs 120 Cr with operating EBITDA of Rs 27 Cr with operating EBITDA margin at 22.5%.
3. Revenues for PICL stood at Rs 35 Cr, operating EBITDA stood at Rs 3 Cr, and operating EBITDA margin stood at 7.7%. The management expects some margin expansion over the next 2 to 3 years' time.
4. Q3 revenue for IL JIN stood at Rs 91 Cr and in Ever stood at Rs 33 Cr. Operating EBITDA margin for IL JIN stood at 6.3% and Ever stood at 6.6%. 9M revenue for IL JIN stood at Rs 189 Cr and Ever revenue was at Rs 95 Cr, while operating EBITDA margin for IL JIN at 5.3% and for Ever at 3.8% in the same period. IL JIN added 4 new customers and has a few more to be approved.
5. Volumes sold in Q3 were at 5,43,000 units vs 5,72,000 units last year.
6. Consolidated debt as of 31st Dec 2020 was at Rs 263 Cr vs Rs 343 Cr last year.
7. Industry inventory levels have dropped as most brands have pushed a lot of inventory into the primary sales due to the expected cost increases of the product due to commodity and commodity impacts.
8. The management has stated that any increase in RM costs will be passed on to end customers. The company will be inserting this kind of price variation clause in all its orders soon.
9. The plot in Supa has an area of 10 acres and the company is constructing on 2.5 lac sq feet area initially. It is also adjacent to Toshiba manufacturing plant and Carrier Midea plant. Commercial production in the facility is expected to start by FY22.
10. The starting capacity for this plant is around 1 million units and some spare parts capacity.
11. The company will be submitting samples for top through window air conditioners in USA which is very different from the models sold in India.
12. In overall, RM cost increases are expected to cause prices of finished goods to rise by 5-7% according to the management.
13. The management doesn't feel that a price increase is going to deter most customers as it would be only around Rs 1500-2000. For someone who is looking to upscale from cooler to AC, such a price increase may cause them to move to EMI schemes or postpone the purchase.
14. Currently Amber has an overall RAC market share of 24% and RAC ODM market share of almost 70%.
15. The company is seeing the opportunities from the import ban on finished goods to unfold in 2 phases. In Phase 1, the company will be supplying finished units to customers till they can set up their manufacturing facilities. In Phase 2, once these customers have their manufacturing setup, Amber can supply them with components for the unit manufacturing.
16. The validation phase in the components business takes around 18-24 months and thus the uptake from the components is expected to start rising in 2-3 years.
17. There are a total of 15 manufacturers who are servicing a market of 7 million units per year in India.
18. Sidwal has grabbed 2 or 3 new orders worth Rs 120 Cr in Q3. The current order book for Sidwal is at Rs 400 Cr which is expected to be executed within the next 2 years.
19. The management is also expecting custom duty increases on the component side and the unfinished goods side.
20. The company has recently started commercial air conditioner line with 3.5- and 4.5-ton units. The company will also be adding 22 new products in this segment in the next 2 years catering to commercial and industrial applications.
21. Mobility applications now account for 5.5% of total revenues for Amber.

22. The company will be the first ODM in the commercial AC space and it is thus expecting good response.
23. Exports now account for 20% of PICL revenues. The management expect this number to rise to 30-35% in next 2 years.
24. Capex guidance is for Rs 300 Cr for the next 2 years for the expansion of the 2 new sites.
25. The local procurement of components for the RAC space accounts for only 25% of industry demand. the PLI scheme is looking to increase this number to 75%in the next 5 years.
26. The management has stated that setting up a 2 million units' capacity compressor plant from scratch will take around 18-24 months and Rs 250 Cr.
27. The company has already gotten an order from Voltas Beko for refrigerator and washing machine components. It has also gotten 2 customers for washing machine motors.
28. In washing machines, Amber is supplying tub assemblies, inverter PCB board, injection molding components, and motors which account for around 25% of washing machine manufacturing.
29. In refrigerators, Amber is doing sheet metals, door liner and case liners, and electronics. All of these account for 20-25% of refrigerator manufacturing.
30. The components are being supplied for semi-auto and top-loading washing machines only.
31. The management expects around 10-15% of revenues to come from exports in the next 4-5 years.

#### **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 good with recovery back to Q3FY20 levels in both sales and volumes. The demand for components has been steadily rising and the company is also looking to supply components for other consumer electronics like washing machines and refrigerators. The management has clearly outlined how the company plans to take the opportunities arising from the import ban on finished goods. It remains to be seen how the industry demand will be affected by the rise in RM costs and whether the company will be able to achieve 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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