

INITIAL COVERAGE ON



Amber Enterprises India Ltd



Key Data

Industry:	AC Manufacturing
CMP:	Rs. 1388
Market Cap (Cr):	Rs. 4366 Crore
52 –Week High/Low:	Rs. 750/1695
Investment Horizon:	3-5 Years
Outlook:	Positive

Shareholding Pattern

Promoter:	44.02%
FII/ FPI:	12.38%
Mutual Fund:	7.22%
Other:	36.38%

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Amber Enterprises India Ltd is one of the top players in Air Conditioners- Original Equipment Manufacturer (OEM)/ Original Design Manufacture (ODM) industry in India. It has a dominant presence in RACs complete unit and deals in major RAC components and mobile application business with 12 manufacturing facilities across India focusing on different product segments.

Investment Rationale

Shift from in-house manufacturing to Outsourcing

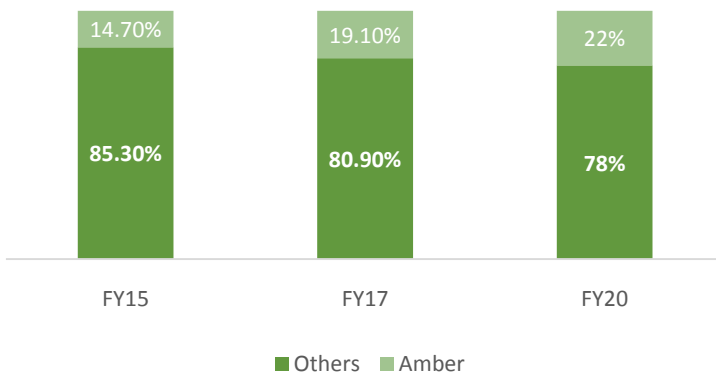
Room Air Conditioners (RAC) Industry is facing intense competition and majorly all the brand players have been shifting attention to their core business functions of marketing, branding, after sale services, better product portfolio management, less diversification of resources and outsourcing production OEM/ODM players. Outsourcing of production has increased from 16% (FY'12) to 34% (FY'17) to 38-39% (FY19) and is further expected to increase to 56% by FY'22. Amber could be a major beneficiary of this trend as **Amber is market leader in outsourcing industry** with 55.4% (FY'17) market share and 57-58% in FY'19. Further, Amber's share of the overall RAC market in India in terms of volumes has grown from 14.7% in (FY'15) to 19.1% in (FY'17).

Lower penetration of RAC in India

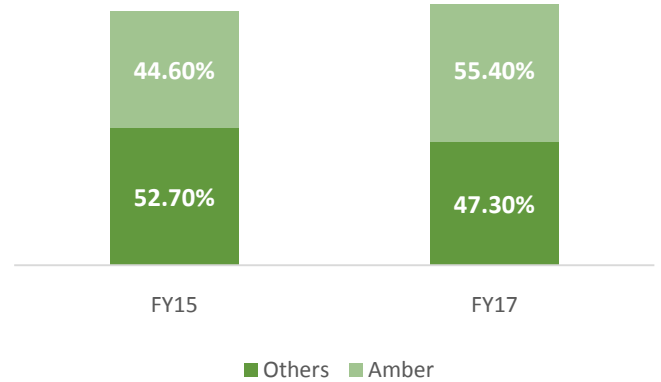
India significantly lags other countries in terms of AC penetration levels. As current penetration levels in India is just 5% as compared with other countries which are as high as 90-100% and global average at 30%.

Robust financial performance in past years with market share gain - In past 5 years, revenue of Amber has increased from Rs 1089 crores in FY16 to Rs 3962 crore in FY20 at a CAGR of 29% and PAT increased from Rs 24 crores in FY16 to Rs 164 crores in FY20 at a CAGR of ~47%. **Amber has continuously outperformed the industry to gain market share.**

Amber gaining market share in RAC Industry



Increasing share in OEM/ODM Industry (Volumes)



Source: Company DRHP, NIA Research

Diversified offerings with strong backward integration

In terms of bill of material, depending on the model of RAC, it manufacture up to **49% of the ODUs, 62% of the IDUs and 54% of WAC**, which includes most of the critical components. Strong backward integration is a moat for Amber as no outsourcing company in India have backward integration to that extent.

Aggressive inorganic growths lead by strategic actuations, as well as diversifying product and customer base.

Amber has made three key acquisitions in last 2-3 years namely ILJIN and Ever in PCB Board, strengthening backward integration as it forms around ~20-22% of RAC manufacturing cost. It also acquired Sidwal to tap a newer segment and clients in HVAC. This allowed Amber to enter into HVAC opportunity into different segment like Railways, Metro Rail, Defence, Telecom, and others. SIDWAL is market leader with 50% market share in the Railways and Metro Rail segments and 80% market share in Defence.

ABOUT BUSINESS

Amber Enterprises India Ltd is one of the top players in Air Conditioners- Original Equipment Manufacturer (OEM)/ Original Design Manufacture (ODM) industry in India. It has a dominant presence in RACs complete unit and deals in major RAC components with 12 manufacturing facilities across India focusing on different product segments.

Amber is largely an ODM player, share of OEM is low- around 9-10% of revenue and 90% from ODM.

OEM companies manufacture products based on the designs provided by another company. The OEM manufacturer only manufactures what the buyer requires. On the other hand an ODM company creates the designs and manufactures the products themselves. These products are often known as Blank Products or White Label. It can be rebranded and sold by the buyer company as their own products.

Product portfolio of Amber comprises of:




1. **Room Air Conditioners** (Window AC, Split AC, Inverter Split AC)
2. **AC Components** (Heat Exchangers, Electric Motors, Copper tubing)
3. **Non -AC Components** (Plastic extrusions, Vacuum forming, Sheet metal components)
4. **Mobile Air Conditioners** (Railway Air Conditioners, Metro Air Conditioner, Bus Air Conditioner, Defense and Telecommunications-Data Centers)

Closer look at Amber's product portfolio:

RACs: Amber design and manufacture complete RACs including window air conditioners (WAC) and indoor units (IDU) and outdoor units (ODU) of split air conditioners (SAC) with specifications ranging from 0.75 ton to 2 ton, across energy ratings and types of refrigerant. It also design and manufacture Inverter RAC ranging from 1 ton to 2 ton.

RAC Components: It includes manufacturing critical functional components of RACs such as heat exchangers, electric motors and multi-flow condensers and also non-critical RAC components such as sheet metal components, copper tubing and injection moulding components.

Other Components: It manufacture components for other consumer durables and automobiles such as case liners for refrigerator, plastic extrusion sheets for consumer durables and automobile industry, sheet metal components for microwave, washing machine tub assemblies and for automobiles and metal ceiling industries.

Room Air Conditioner (2-star to 5-star energy ratings)	Indoor units Outdoor Units Window ACs	
Room Air Conditioner Components	<ul style="list-style-type: none"> ● Heat Exchangers ● Copper System Tubing ● Multi Flow Condensers ● Printed Circuit Boards ● Sheet Metal Components ● Injection Moulding ● AC Motor 	
Non-Air Conditioner Components	<ul style="list-style-type: none"> ● Inner Case liner Refrigerators & Plastic Extruded Sheets ● Washing Machine Tubs ● Non-Air Conditioner Motors ● Printed Circuit Boards 	

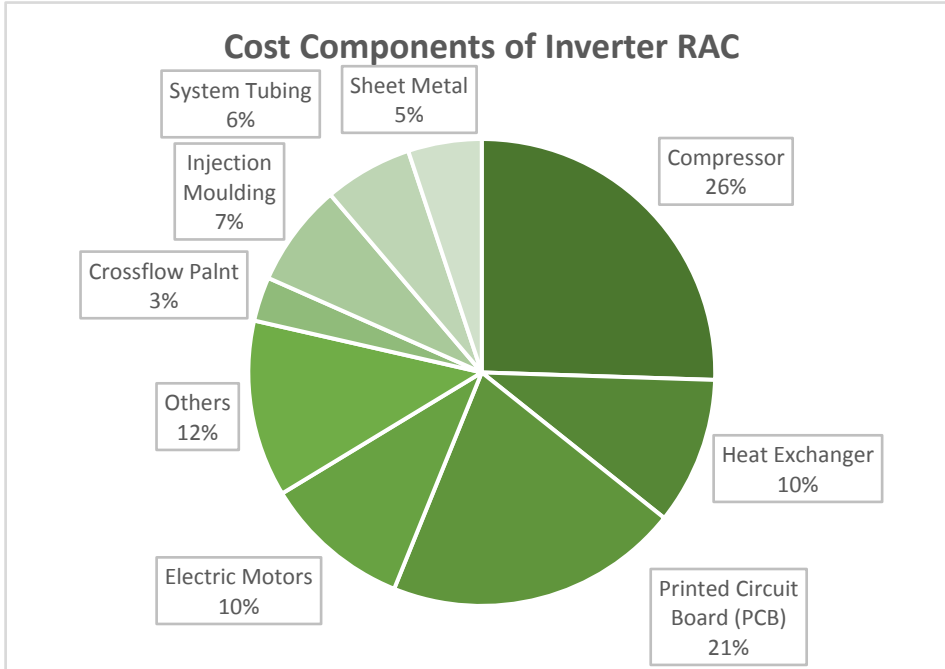
Segments (Rs. in Crores)	FY16	FY17	FY18	FY19	FY20	CAGR	Composition (FY20)
RACs	699	1252	1540	1741	2425	28%	61%
Components and Mobile Application business	389	399	587	1011	1538	32%	39%
Total sales	1088	1651	2127	2752	3963	30%	
Total RAC Volumes	800	1514	1910	2117	3028	31%	

Diversified range of product makes Amber one stop solution provider for the RAC industry with high degree of backwards integration:

In terms of bill of material, depending on the model of RAC, it manufacture up to **49% of the ODUs, 62% of the IDUs and 54% of WAC**, which includes most of the critical components (except compressors, which are largely imported for the RAC industry in India) (Source: F&S Report).

Split ACs: It consists of two components: (i) Indoor Unit and (ii) Outdoor unit. Indoor unit are installed in the desired space for heat accumulation and producing the cooling effect inside the room. Outdoor units are installed outside the room containing the important parts such as compressor, condenser, expansion valve etc. It is installed outside for the flow of heat exhaustion.

Window AC: WAC is a single cubicle unit, assembled in a case consisting of all the components of the air conditioning unit.



Inverter AC	Amber Capability
Compressor	No
Heat Exchanger	Yes
Printed Circuit Board (PCB)	Yes
Electric Motors	Yes
Others	No
Cross flow Plant	No
Injection Moulding	Yes
System Tubing	Yes
Sheet Metal	Yes

Amber Capability (Yes)	~59%
Amber Dependency (No)	~41%

Source: Company, NIA Research

Compressor is majorly imported from China and management in near term do not endeavour to produce Compressor as current volumes do not justify for economies of scale and thus will not be able to enjoy cost benefit of in-house production of compressors. Others include stores and spares, nuts and bolts and other low cost component items.



Heat Exchangers



Printed Circuit Boards (PCB)



System Tubing



Sheet Metal Parts



Motors



Injection Moulding

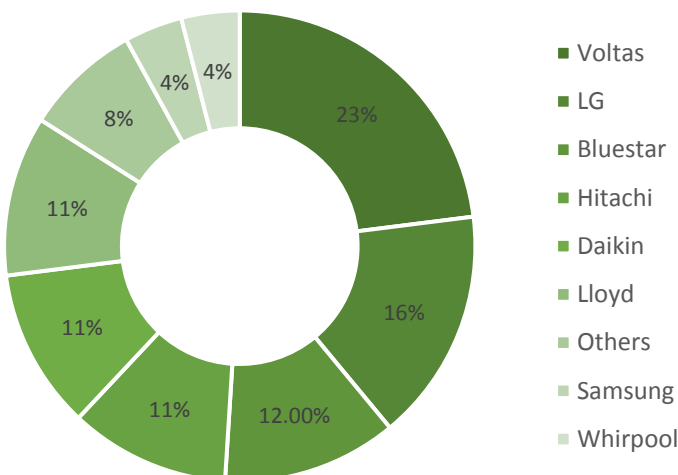
Strong customer base and customer relationship proving to be high entry barriers for new incumbents:

Amber serves 8 out of top 10 RAC marketers in India which includes Voltas, LG, Panasonic, Hitachi, Daikin, Bluestar, Panasonic, Godrej, carrier etc. Together these customers hold more than 75% of market share in RAC in India. **Top 3 customers of Amber constitute over 50% of its revenue which includes Voltas, Panasonic and LG (~16-17% each).** Further, top 10 customer constitutes over 75% of revenue. These customers are said to have long standing relationship with Amber where most of them are associated with Amber for more than 5 years.

Online industry: Currently online sales of RACs constitute 12% of total sales in the industry, which was around 3%, 3 years back. Online sales are growing with good pace and online players expect the share to further penetrate to 15%. Amber in previous years added Flipkart and Amazon as their customers.

Entry barrier: Product approval cycle i.e. approval by brands like LG, Whirlpool etc to be their ODM/OEM can stretch up to 2-3 years and around 1.5-2 years before they starts to ramp up their requirements for manufacturing RAC. This proves to be a high entry barrier as it is difficult for new incumbents to land leading brands as their customers.

Market share of RAC Brand Players



Company	Ambers Customer
Voltas	Yes
LG	Yes
Bluestar	Yes
Hitachi	Yes
Daikin	Yes
Lloyd	
Others	
Samsung	Yes
Whirlpool	Yes

Source: Edelweiss and MOSL Research reports, news articles, Company

Strategic acquisitions strengthening Backward Integration, diversifying customer base and increasing wallet share with clients:

In pursuit of one stop solution provider for RAC manufacturing and designing, Amber has made key acquisitions, totalling to 3, in past 2-3 years:

1. Sidwal Refrigeration Industries Pvt. Ltd. (SRIPL) and Sidwal Technologies

Amber acquired 80% equity in SRIPL in May 2019, for a total consideration of Rs. 202 crores, of which Rs. 146.5 crores was cash consideration (internal accruals) and rest borrowings. The balance 20% equity is agreed to be acquired after two years through a staggered buyout based on certain milestones. Sidwal is a leading player in the mobile air conditioning and refrigeration industry, providing diversified Heating, Ventilating and Air Conditioning (HVAC) solutions to Indian Railways, metros, defense, telecom and bus and commercial refrigeration segment. Sidwal is a market leader with ~50% market share in the railway and metro segments and ~80% in the defense Segment. Before acquisition, Sidwal revenue grew at ~12% CAGR from FY16- Rs. 115 Crores to FY19- Rs. 180 Crores. After acquisition, revenue saw a more robust growth at Rs. 176 Crores for 9 months ended on December 2019. EBITDA margins are very strong at ~22%.

Company is able to sustain 20%+ margin due to high entry barriers in the form approvals from customers like Defense and Indian Railways, which generally takes 6 to 7 years.



Source: Company's presentation

2. ILJIN and Ever Electronics

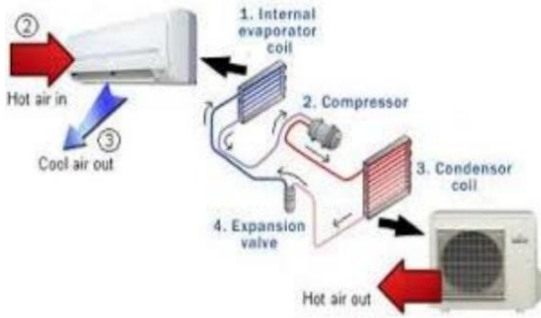
IL JIN is engaged in manufacturing, assembling, dealing, importing and exporting of electronic assembled Printed Circuit Boards (PCBs). Similarly, Ever is one of the top PCB manufacturer in India engaged in Consumer Electronics PCB. These acquisitions are in line with its strategy to capture more wallet share and increase offerings in inverter RACs and consumer appliances like Microwave and Refrigerator. It also enables them to tap **“Smart Electronic Product”**. PCB also forms a critical part of inverter ACs. Inverter RACs are gaining share in RAC industry from 10-12% in past 2-3 years to 65% currently, thus will help Amber to gain share in Inverter ACs.

ILJIN Electronics was acquired for Rs. 54 crores for 70% stake before the IPO in 2017. Amber acquired 19% stake (Sept, 2018) in Ever for a consideration of Rs 5.7 Crores and remaining 51% thereafter. Both IL JIN and Ever posted total standalone revenue of ~Rs. 600 Crores. EBITDA margins of Ever are low at around 2.5-3.5% while that of IL JIN is around 3-5%. These margins are expected to improve. Amber has option to acquire remaining 30% in both these entities over next couple of years.

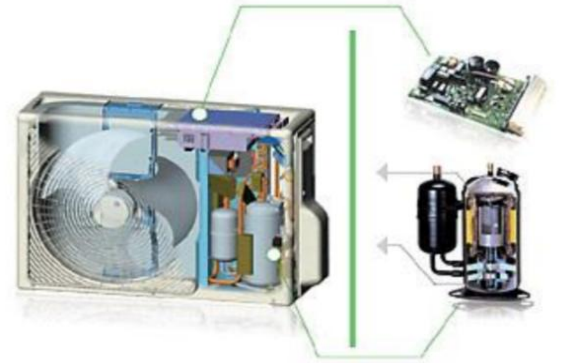
ILJIN (Rs. In cr.)	FY16	FY17	FY18	FY19
Revenue	155	199	336	334
% growth		28%	69%	-1%
EBITDA	6.4	8.9	8.85	16.57
EBITDA Margin	4.13%	4.47%	2.63%	4.96%
PAT	0.7	-1.2	1.7	5.8
PAT Margin	0.45%	-0.60%	0.51%	1.74%

Ever (Rs. in cr.)	FY16	FY17	FY18	FY19
Revenue	117.8	141.5	225	272
% growth		20%	59%	21%
EBITDA	3.1	5.4	4.9	7.1
EBITDA Margin	2.63%	3.82%	2.18%	2.61%
PAT	-3.9	2.9	4.7	3.1
PAT Margin	-3.31%	2.05%	2.09%	1.14%

Mechanical Product



Smart Electronic Product



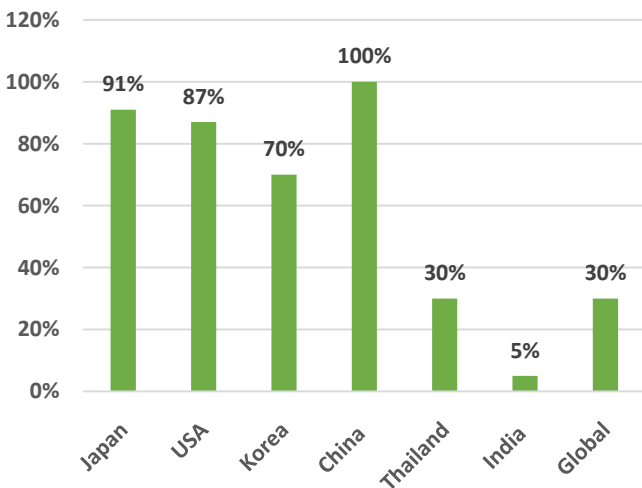
Company Name	Year	Consideration	Holding (%)	Products or Components
PICL	2012	Rs 49 Crores	100%	Motors for SAC, WAC and Commercial ACs
IL JIN	2017	Rs 54 Crores	70%	PCB Boards for RAC (most importantly inverter Acs), TV, WM, Refrigerator
Ever	2019	Rs 21 Crores	70%	PCB Boards for RAC (most importantly inverter Acs), TV, WM, Refrigerator
Sidwal	2019	Rs 202 Crores	80%	HVAC related to Indian Railways, metros, defence, telecom and bus and commercial refrigeration segment

INDUSTRY OVERVIEW

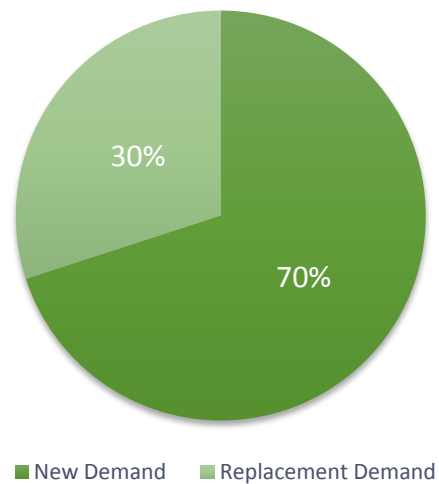
Lower penetration in India to provide huge opportunities:

India significantly lags other countries in terms of AC penetration levels. As current penetration levels in India is just 4% as compared with other countries which are as high as 90-100% and global average at 30%. Any progress in this front could drive sales of RACs significantly. In comparison to other Asian countries, there is tremendous potential in the Indian market as the overall RAC penetration is relatively much lower. This defines how Indian RAC market would be leading the path of global market growth in the next few years. China’s penetration level has significantly increased to 100% in urban areas due to increase in per capita income and rising human temperature. Same trends may be unfolded in India too.

RAC Penetration levels across countries



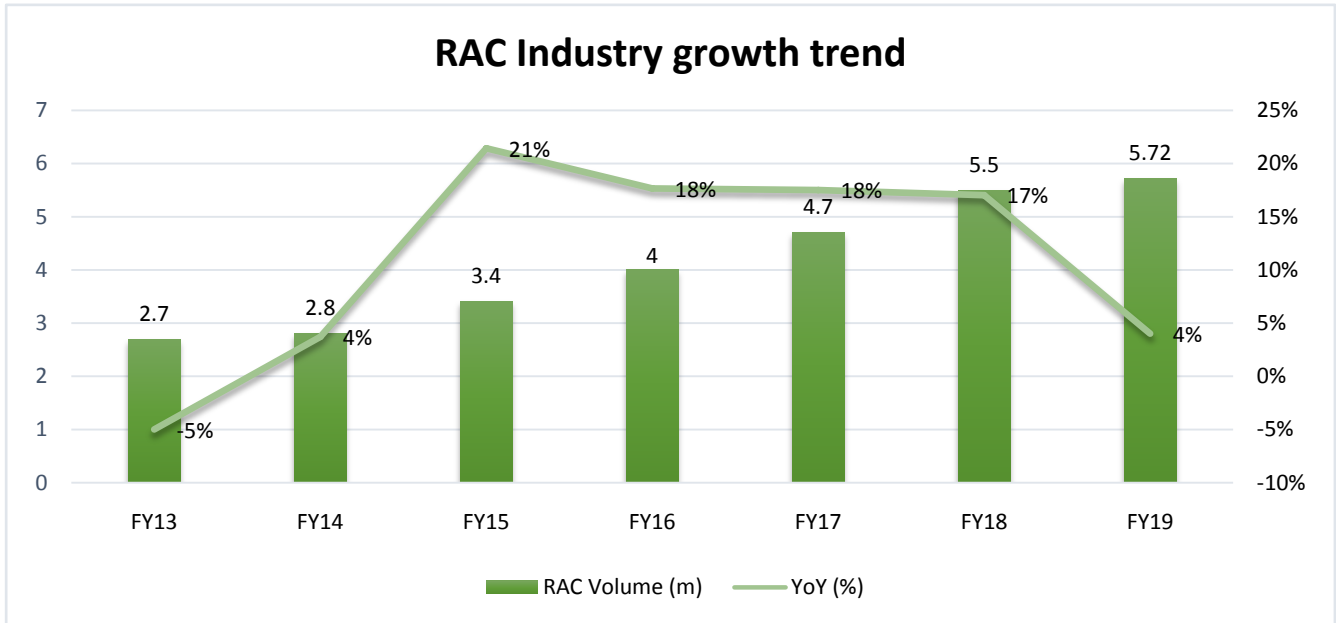
New Demand to increase penetration levels



Source: Company, News article

RAC Industry witnessing robust growth trends

The Indian RAC market has been witnessing robust growth trend in the past seven years with a CAGR of 14% by volumes. The industry is expected to continue the growth trajectory owing to various reasons. Growth driver for industry would be lower penetration of the product, increase in rural sales, better financing options, and changing sentiments from luxury good to necessity, longer summers and shortening replacement cycles. With the rising income, India is expected to see the share of its middle class population share widen meaningfully, thus driving the consumer demand. This consumption drive is likely to further encourage investments in to the country to tap the large middle class consumers. Thus, all these favourable factors could have a positive impact on entire RAC industry.



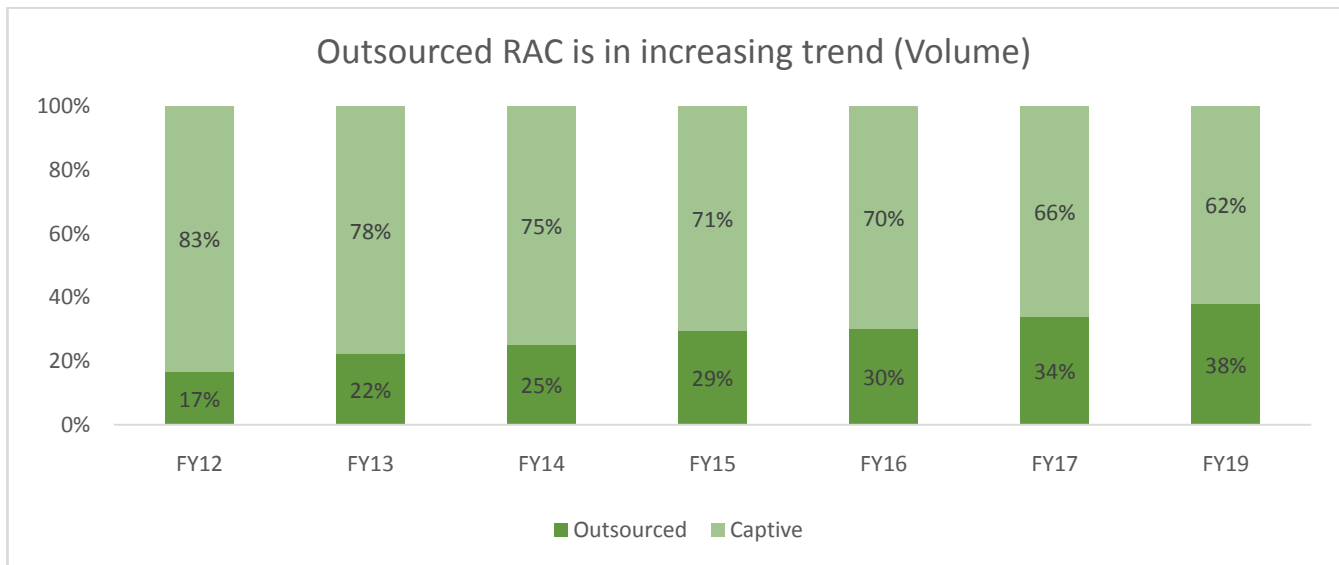
Source: Edelweiss and MOSL Research reports



Source: Voltas

Shift from In-house manufacturing to Outsourcing

Intense competition and growing number of RAC brands in the market has forced RAC brands to concentrate of marketing and promoting their product to spread their sales reach expand their market share pie. RAC brands are adopting asset light strategy hence they are choosing to outsource most of the manufacturing of RAC and RAC components to ODM/OEM players. Over the period FY12-17, RAC Industry grew by ~8% CAGR while OEM/ODM industry grew by ~21% CAGR, which shows an increasing trend towards asset light model in RAC Brands and outsourcing the manufacturing process.

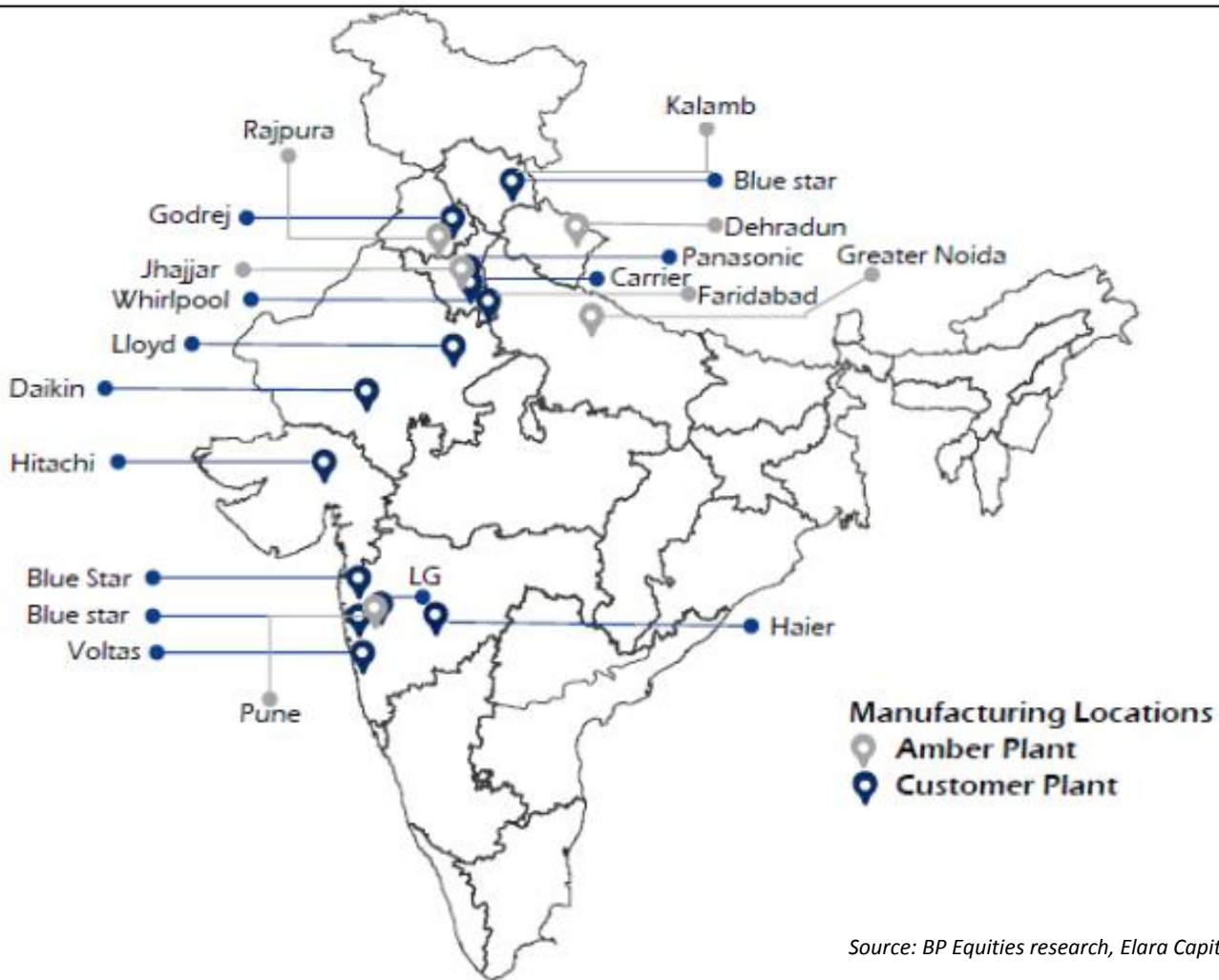


Source: Company, NIA Research

COMPANY'S COMPETITIVE EDGE

Strategic presence in manufacturing space, near the cluster of customers which provides a competitive edge to the company

Amber's plants are strategically located closer to the manufacturing locations of customers. Management capex is highly dependent on location of cluster of 2-3 brands at least to set up a manufacturing plant near the customer, so that Amber can serve them better have better capacity utilization. Currently Amber has strong presence in North India and mild presence in Western part. Company may plan to move south if cluster of 2-3 brands are present. Samsung is already present in South and Voltas is looking to expand in South which could lead to capex by Amber in future if Voltas moves south.



CAPEX requirement for increasing additional capacity is low. Amber is well positioned to cater additional demand with less capex.

Capacity Utilization: In peak season (March, April, May), capacity utilization is around 80-85%, while off season it is around 45-50%.

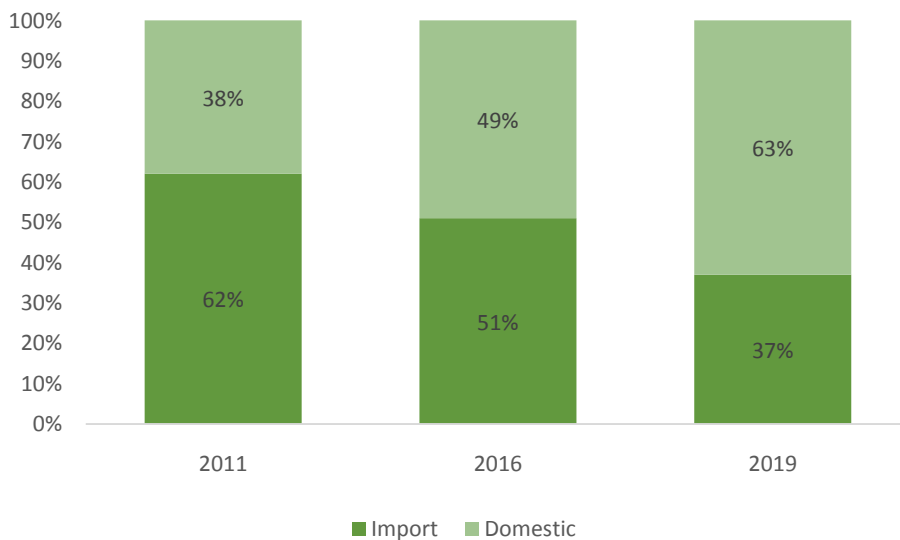
Amber have present capabilities to **assemble** ~5 million units but the production of components serve as a limiting factor thus it is not able to currently produce all 5 million units as components can't be produced to the tune of 5 million. To increase the capacity to produce more finished goods, Amber requires to do de-bottlenecking of existing component manufacturing which does not require much capex as it does not involve setting up a new plant altogether. Capex guidance by the management is in similar lines as company is able to survive more than 2 or 3 seasons of high demand without any capital addition and just de-bottlenecking.

Future capex guidance is:

1. Maintenance Capex around ~Rs 25-30 Cr
2. R&D around ~Rs 20-25 Cr
3. De-bottlenecking capex around ~Rs 10-15 Cr

“Atmanirbhar Bharat” and “China plus one” strategy can provide trust on local manufacturing and Amber could be a major beneficiary:

Government is stressing on need for reducing imports and strengthening local products across the key categories including ACs. Increased focus on component industry eco system will support domestic manufacturing and reduce dependence on imports for AC Components. There’s a good scope of import substitution in this space. Out of Rs 22,000 Crore AC market in India, only about 30% value is added locally, according to estimate by industry bodies such as Consumer Electronics and Appliances Manufacturers Association (CEAMA). Imports of finished RAC are already showing a declining trend which is very positive for the industry. Government may come up with various incentives to curb import and develop component eco-system in India like increase in import duty on components and RACs as was previously done in Sept, 2018. Likewise, Amber could be a major beneficiary of such policies.

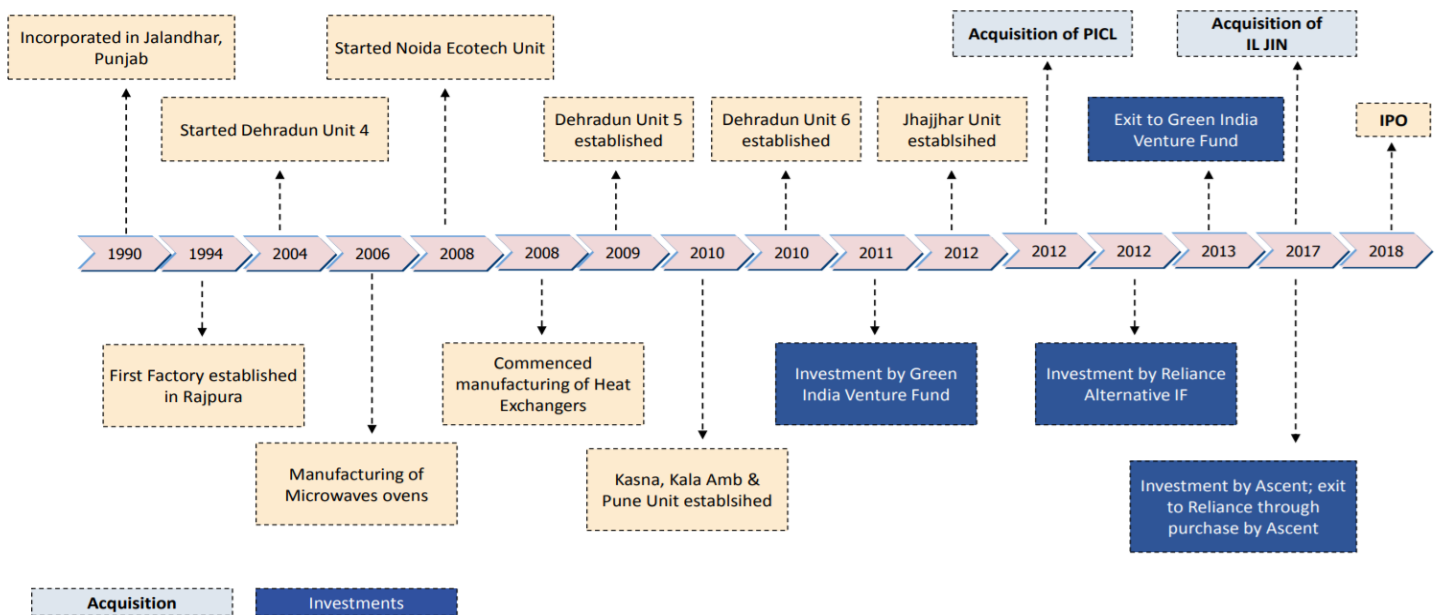


China plus one strategy adopted by many global RAC brands can benefit India as a manufacturing alternative for RACs. Amber has able to witness “China plus One” strategy capitalizing in the last couple of quarters. It provides huge export opportunities in the global market and companies from across the globe have started commencing

plant audits to assess amber’s capability for safety & reliability of products & components.

COMPANY BACKGROUND

The company was incorporated as Amber Enterprises India Private Limited on April 2, 1990 at Jalandhar, Punjab. From a single factory in Rajpura, Punjab, that commenced operations in 1994, it has grown to 12 manufacturing facilities across seven locations in India. It has evolved into a complete Room Air-Conditioners (RAC) solution provider – the largest backward integrated Original Design Manufacturer (ODM)/ Original Equipment Manufacturer (OEM) in India of RACs. Post IPO, Amber have continued its backward integration process and diversifying customer base with increasing wallet share through key acquisitions in ILJIN, Ever and Sidwal.



Source: Company

KEY RISK

Demand and supply disruption due to COVID-19 and expected economic slowdown:

Due to ongoing COVID-19 pandemic, demand and supply have taken a hit due lockdown in peak season (March, April, May). If the same continues even in FY21, then Amber would have a huge negative impact on its business. But as per various reports and experts, situation is expected to return to normalcy. Further if it results in economic crisis then Amber's revenue could be severely impacted.

Greater concentration in revenue from few clients

Around ~50% of revenue is derived from top 3 customers, further top 10 customers' accounts for more than 75% of revenue. If any of these big customers loses, then it could have significant impact on demand of Amber. Furthermore, if these three customers (Panasonic, LG, Voltas) lose their market share to new incumbents in the industry then also it will have an impact on Amber sales.

Adverse trend in OEM/ODM industry

Currently the industry trends are positive but if the companies resort to in-house manufacturing then outsourcing industry can suffer so do Amber.

Margins may suffer when RAC Brands resort to cost cutting

RAC Brands are highly competitive and if brands focus more and more on cost reduction then it may lead to re-negotiation of contracts with Amber and this could impact Amber's margins.

Policies of Indian Government

If Indian policies are not at par with policies preferred by other countries against China's import then China may dump its product more in India which could lead to Indian manufacturers losing competitive advantage to Chinese imports and could have negative impact on Indian players including Amber.

KEY MANGERIAL PERSONNEL

Mr. Jasbir Singh is the **Chairman and Chief Executive Officer** of the Company. He holds a Bachelor's degree in engineering (industrial production) from Karnataka University and Master's Degree in business administration from the University of Hull, United Kingdom. He was appointed to the Board of the Company since October 1, 2004. He has over 15 years of experience in the RAC manufacturing sector. He has successfully established over seven factories in past ten years and established relationships with various large brands. Under his guidance, Amber has initiated the concept of additive manufacturing solutions.

Mr. Daljit Singh is the **Managing Director of the Company**. He holds Bachelor's degree in Electronic Engineering from Nagpur University and Master's degree in Information Technology from the Rochester Institute of Technology. He is serving the Board of Amber Enterprises India Limited ("Amber") since 1st January 2008 and appointed as Managing Director of the Company with effect from 25 August 2017. He has 12 years' experience in finance services and ten years of experience in the RAC manufacturing sector.

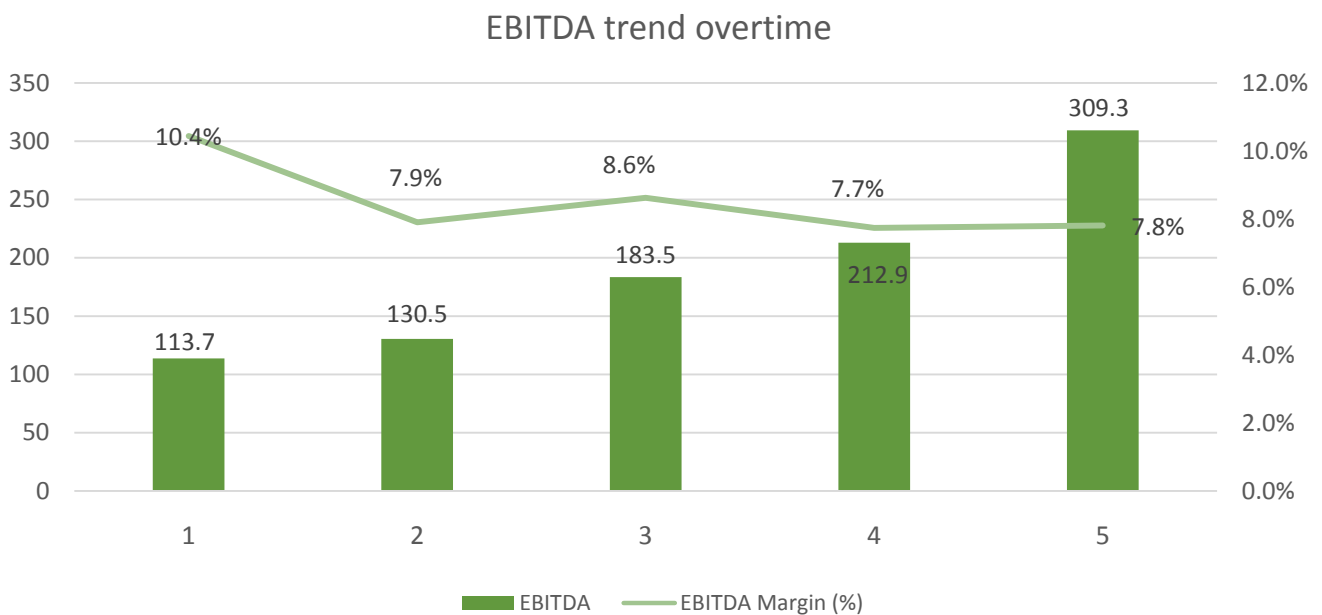
He was also associated with Morgan Stanley in New York as an analyst in the infrastructure track of their information technology analyst training program.

Total managerial remuneration for FY19 amounted to Rs. 3.26 crores which is around ~3.4% of net profit.

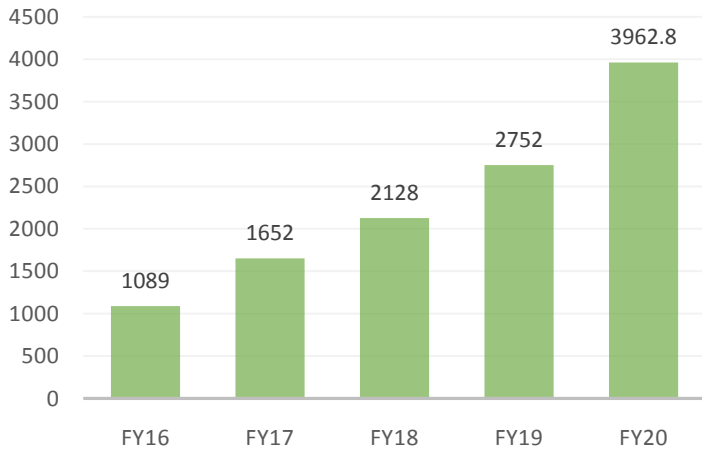
FINANCIAL PERFORMANCE HIGHLIGHTS

EBITDA margins have remain in range of 7.5-8% which seems to be sustainable

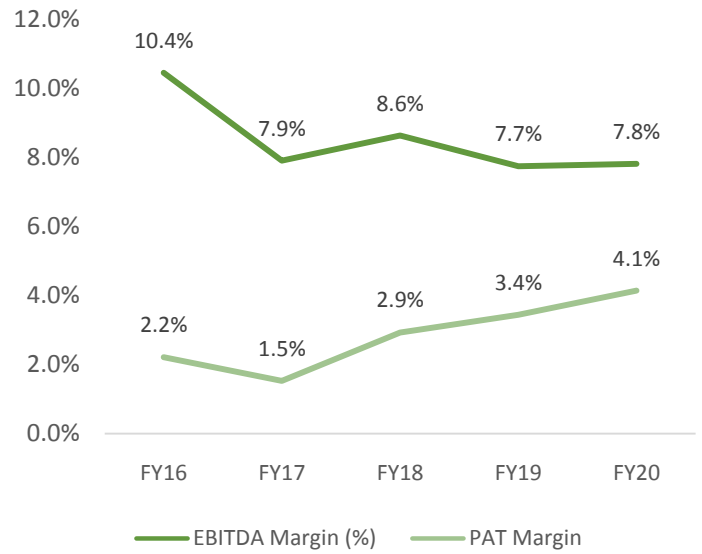
Amber’s contract with RAC brands are long term in nature generally 5-7 years with 3 months order booking. These contracts are generally Cost+ profit margin, thus the increase in cost can be easily transferred to RAC Brands and therefore retaining the margin. Unless the profit margins are negotiated to lower levels, there is less chances of dilution in margins. Further there is scope of margin improvement in form of operating leverage, better cost efficiencies and R&D.



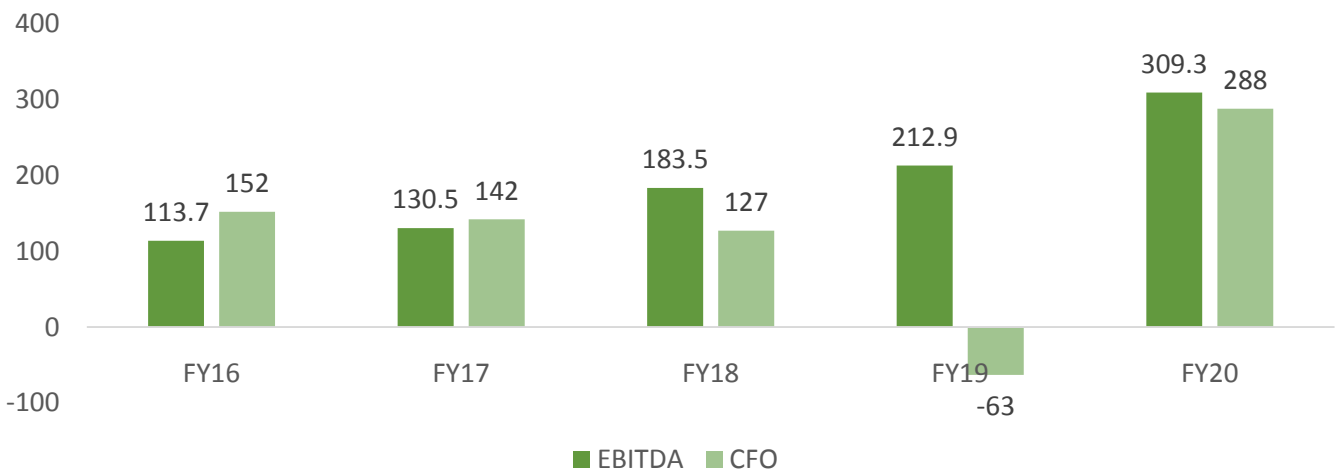
Robust sales growth in previous years..



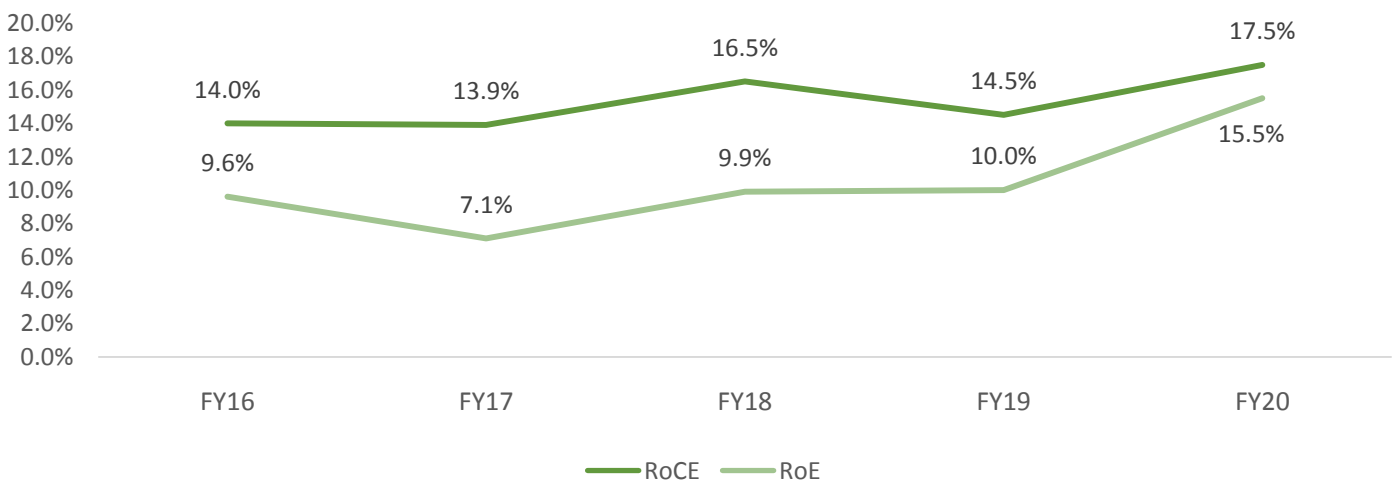
Consistency in profit margins...



Cash flows from Operations(CFO) in line with EBITDA...



RoCE and RoE trend overtime...



VALUATION RATIO	Amber	Dixon	Bluestar	Voltas
Sales CAGR- 5 years	30%	26%	7%	6%
PAT CAGR- 5 years	47%	21%	6%	6%
P/E Ratio	28.47	52.96	35.55	35.87
P/BV Ratio	4.65	13.03	5.82	4.47
EV/ EBITDA Ratio	15.4	27.59	15.77	15.5

Particulars	FY16	FY17	FY18	FY19	FY20
Operating Revenue (Net of Excise)	1089	1652	2128	2752	3962.8
<i>% growth</i>	-11.5%	51.7%	28.8%	29.3%	44.0%
Raw Material	858.5	1371.2	1768.8	2319.5	3301.7
Employee Benefit	36.5	43.7	49.8	58.7	106.3
Other Expense	80.3	106.5	125.9	160.9	245.5
Total Expenditure	975.3	1521.4	1944.5	2539.1	3653.5
EBITDA	113.7	130.5	183.5	212.9	309.3
<i>EBITDA Margin (%)</i>	10.4%	7.9%	8.6%	7.7%	7.8%
<i>% growth</i>	10.9%	14.8%	40.6%	16.0%	45.3%
Depreciation and Amortisation	30.9	40.1	49.0	62.3	84.8
EBIT	82.8	90.4	134.5	150.6	224.5
<i>% growth</i>	7.6%	9.2%	48.8%	12.0%	49.1%
Finance Cost	53.2	63.5	53.8	24.6	41.91
Other Income	3.1	8.8	8.7	9.9	8.2
PBT	32.7	35.7	89.4	135.9	190.79
<i>% growth</i>	-19.0%	9.2%	150.4%	52.0%	40.4%
Tax	8.6	10.5	27.1	41.2	26.6
PAT	24.1	25.2	62.3	94.7	164.1
<i>PAT Margin</i>	2.2%	1.5%	2.9%	3.4%	4.1%
<i>% growth</i>	-14%	4.6%	147.2%	52.0%	73.3%

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