



Over the last two years, brands have increased their RAC capacities and Amber has transitioned itself from an RAC manufacturer to a solution-based EMS provider with higher backward integration and strong component strategy (70% of RAC BOM in-house). This, coupled with import substitution, augmented its wallet share from existing clients, as also new client adds, leading to a 61% growth in FY23 (industry BOM +45%). The trend is likely to sustain as backward integration by brands is likely to be limited to few components (heat exchangers, sheet metals, etc.), and for a portion of their requirement, considering the seasonality. Notably, components such as motors (60% imported), PCBAs (40% imports), etc., are areas where Amber could likely see benefits

Non- RAC scaling up at a strong pace

Mobility (Sidwal): The company has expanded its TAM by entering into gangways and plug doors and is also one of the few vendors to be approved for Vande Bharat (won recent orders). With Order Book (OB) of ₹7.6bn and sustained traction in existing coaches and new areas, the segment is likely to see a 25% CAGR over the next two years.

Electronics (Iljin & Ever): This arm is seeing a sharp growth on the back of import substitution, along with diversification into areas such as refs (20% of BOM), Washing Machines (15% of BOM), microwaves, telecom, wearables, etc. Further, own R&D setup will aid in increasing the value addition to attract and onboard new clients. Accordingly, electronics can see 30%+ CAGR, with margins improving towards 6-7%.

Motors: With 60% of motors being imported for RACs, this segment has huge scope to grow. Concurrently, diversification into other applications and focus on exports (currently 12% of the segment) will further augment growth (likely 30%+ CAGR).

Expanding HVAC solutions: Considering its expertise in cooling, Amber has forayed into HVAC solutions for data centres, defence, missiles, etc., which can drive a meaningful diversification in the next few years and open new avenues for growth.

Amber will continue to explore more opportunities to expand its business into new products and geographies for new customers and secure higher wallet share.

Unseasonal rains in Apr-May'23 led to RAC demand being muted in Q1FY24. Accordingly, the industry is likely to see +20% YoY decline. However, Amber's non-RAC and components businesses, which have seen client adds, wallet share increase, etc., will continue to see growth, thereby helping improve performance for the quarter.

Exports will scale up meaningfully over the next 2-3 years

Amber focused on exports only over the past 2-3 years. The US and the Middle East are large markets, where clients are seeking an alternate partner to a Chinese vendor. Amber has developed products for these markets, wherein each country has its own specific BEE equivalent ratings. With several prototypes and facility audits, positive signs of tiny orders have started to trickle in. While current revenues are fairly low, they are likely to scale up meaningfully by FY26.

Amber has invested heavily (~₹20bn over the past five years) to expand its faculties, as well as improve its component ecosystem. Many of these factories were set up close to client factories to drive customer stickiness and reduce logistics costs. However, due to muted demand and under utilisation, RoCE was impacted, particularly over the past few days. **Nevertheless, as capex intensity slows down and utilisations improve, return ratios are likely to trend upwards towards 15-20% in next 2-3 years.**

Important Data

Nifty	18,708
Sensex	63,097
CMP	₹2457.9
Market Cap (₹)	₹82.8bn
52W High/Low	₹2580 (03Aug22) / ₹1763 (27Mar23)
Shares o/s (mn)	33.7
Daily Vol. (3M NSE Avg.)	738,294

Shareholding Pattern (%) – Mar'23

Promoter	40.3
DIs	13.6
FIs	23.9
Public	22.2

Financials & Valuations

Particulars (₹ mn)	FY19	FY20	FY21	FY22
Operating Revenue	27,520	39,628	30,305	42,064
EBITDA	2,129	3,093	2,203	2,754
EBITDA Margin (%)	7.7	7.8	7.3	6.5
Net Profit	937	1,584	816	1,092
EPS (₹)	27.8	47.0	24.2	32.4
RoE (%)	9.3	13.6	5.0	6.5
RoCE (%)	6.3	7.7	6.4	5.9
P/E (x)	88.4	52.3	101.5	75.8
EV/EBITDA (x)	40.2	28.0	38.3	32.5
P/BV (x)	8.2	7.1	5.0	4.7

Particulars (₹ mn)	FY23P	FY24E	FY25E
Operating Revenue	69,271	84,343	100,314
EBITDA	4,179	5,081	6,251
EBITDA Margin (%)	6.0	6.0	6.2
Net Profit	1,572	1,954	2,731
EPS (₹)	46.7	58.0	81.1
RoE (%)	8.6	10.0	12.4
RoCE (%)	7.9	7.4	9.1
P/E (x)	52.7	42.4	30.3
EV/EBITDA (x)	22.4	16.7	13.7
P/BV (x)	4.2	3.9	3.5

Relative performance



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Amber's market share has steadily risen to ~29% (including components)



Source – Company, Way2Wealth

Backward integration capabilities across players

% of BOM	Mkt share	RAC (FG assembly)	Backward Integration Capabilities						
			18-20%	15-17%	5-7%	7-8%	18-20%	7-9%	1%
			Compressors	HE	Sheet	Plastic	PCBA	Motors	CFF
Voltas	18-20%	Part in-house		✓		✓			✓
LG	15-18%	100% In-house	✓						
Daikin	12-14%	100% In-house	✓	✓	✓	✓			✓
Lloyd	12-14%	100% In-house		✓	✓	✓			
Bluestar	10-13%	60-70% In-house		✓	✓				
Hitachi	7-8%	Part in-house		✓	✓	✓			✓
Amber	NA	✓		✓	✓	✓	✓	✓	✓
PG Electroplast	NA	✓		✓	✓	✓	✓		✓
E-Pack	NA	✓		✓	✓	✓	✓		✓

Source – Company, Way2Wealth

White goods PLI – licenses to brands and details of investment commitments

Companies	Investment (Rs mn)	Remarks
Daikin	5,387	Export hub, incl compressor plant
LG	3,000	Compressor plant
Blue Star Climatech	1,560	Sri city plant - HE, Sheet metals
Havells	1,127	Sri city plant - HE, Sheet metals, plastic moulding
Hitachi	1,007	HE, Sheet metals, CFF, plastic moulding
Voltas	1,000	HE, CFF, plastic moulding
IFB	570	Motors, HE, Sheet metal components
Panasonic	500	Control Assemblies, HE, Sheet Metal and Plastic Moulding components
Mitsubishi Electric	500	Control Assemblies, Cross Flow Fan, HE

Source: Industry; HE=Heat Exchangers, CFF=Cross Flow Fans

White goods PLI – licenses to EMS players and details of investment commitments

Companies	Investment (Rs mn)	Remarks
Amber	4,602	Control Assemblies, motors, CFF, HE, sheet metal, plastic moulding components
PGEL	3,210	Control Assemblies, CFF, HE, sheet metal components, plastic moulding components
E-pack Durable Pvt Ltd	3,000	Control Assemblies, motors, CFF, HE, sheet metal, plastic moulding components, display panels
ILJin (Amber subsidiary)	1,673	Control Assemblies, motors, CFF
Virtuoso Opto Electricals	505	Control Assemblies, motors, CFF, Valves & Brass components, sheet metal, plastic moulding components
East India Technologies (subsidiary of Epack)	500	Control Assemblies, Sheet Metal, Plastic Moulding components

Source: Industry; HE=Heat Exchangers, CFF=Cross Flow Fans

White goods PLI – licenses to EMS players for control assemblies and details of their investment

Companies	Rs mn	Remarks
Syrma	510	Control Assemblies
Kaynes	500	Control Assemblies
Dixon	510	Control Assemblies
Napino Auto And Electronics	666	Control Assemblies
Bhagwati Products	610	Control Assemblies, CFF, Valves and brass components, HE, Sheet metal, Plastic moulding
Lucas-TVS	540	Motors
VVDN Technologies	510	Control Assemblies, Motors, Sheet metal, Plastic moulding
Virtuoso Optoelectronics	505	Control Assemblies, CFF, Valves and brass components, HE, Sheet metal, Plastic moulding
East India Technologies	500	Control Assemblies
Magnum Mi Steel	500	Sheet Metal, Motors, HE, Sheet metal
Sun Home Appliances	500	Control Assemblies, Motors, CFF, HE, Sheet Metal, Plastic moulding

Source: Industry; HE=Heat Exchangers, CFF=Cross Flow Fans

VIEW – BOOK PROFITS

Amber is well positioned to service brands that are not adequately backward integrated and is also shifting supply chain to India (import substitution). Further, diversification into non-RAC components for fans, microwaves, refrigerators, etc., along with mobility (railways), telecom and wearables/hearables, is driving a strong traction. The shift in strategy towards components and uptick in demand will likely drive strong earnings growth momentum. Ramp up of capacity utilisation and improvement in return ratios would be key triggers for the stock in coming quarters. Short term investor intending to **BOOK PROFITS** can go ahead while long term investors can continue to stay invested with the stock trading at P/E 30.3x FY25E.(FY25E- RoE/ RoCE -12.4%/9.1%) as the growth prospects looks good on a longer term horizon.

FINANCIALS & FORECASTING

(₹ mn)

Particulars	FY19	FY20	FY21	FY22	FY23P	FY24E	FY25E
Revenue	27,520	39,628	30,305	42,064	69,271	84,343	100,314
EBITDA	2,129	3,093	2,203	2,754	4,179	5,081	6,251
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EPS (₹)	27.8	47.0	24.2	32.4	46.7	58.0	81.1
RoE (%)	9.3	13.6	5.0	6.5	8.6	10.0	12.4
RoCE (%)	6.3	7.7	6.4	5.9	7.9	7.4	9.1
Cash Balances	447	1,203	2,899	5,626	5,594	5,732	12,713
FCF	(1,835)	1,433	364	(1,729)	(3,416)	1,511	4,842
Receivable Days	104	79	129	114	93	105	96
Inventory Days	88	72	104	73	58	66	63
Payable Days	148	122	191	148	121	150	147
Net Debt/ Equity (x)	0.3	0.3	0.1	0.4	0.6	0.5	0.5
P/E (x)	88.4	52.3	101.5	75.8	52.7	42.4	30.3
EV/EBITDA (x)	40.2	28.0	38.3	32.5	22.4	16.7	13.7
P/BV (x)	8.2	7.1	5.0	4.7	4.2	3.9	3.5

Source - Company, Way2Wealth

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Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
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Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
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