

October 23, 2024

RESULT REPORT Q2 FY25 | Sector: Consumer Durables

Amber Enterprises Ltd

Valuations captures positivity; downgrade to NEUTRAL

Result Synopsis

AMBER's Q2FY25 performance has been significantly ahead of ours and consensus estimates with revenue and EBITDA surpassing estimates by 41% and 45% respectively. Consumer durables and EMS division has registered growth of 97% and 98% respectively on yoy basis, with margin improvement of 160bps and 220bps respectively. Strong revenue growth in consumer durables was on back of channel filling, addition of new customer and introduction of new products. On the electronics side diversification into new business of defense, aerospace Auto and consumer electronics has resulted in strong growth. Considering strong growth prospects and current order-book management and despite strong performance in H1 management is maintaining its revenue growth guidance in the electronics division 45%, while it expects consumer durables to outperform RAC industry. Management is confident of strong revenue growth in medium term on huge import substitution opportunities and expectation of the new incentive scheme from the government. The company has inked JV with Korea circuits which will further enhance its capabilities and enable company to make inroads into mobile, IT, module and semiconductor industry. We have been positive on the stock and had recently upgraded the stock to BUY, post that the stock has rallied ~25%. We believe that the current positivity is captured in the stock price and hence we downgrade the stock to Neutral with revised PT of Rs6,684.

We believe AMBER's focus on enhancing its capabilities on the components side, its JV with Korea circuits will bode well for the company. Further, Ascent circuit will result in increased PCBA manufacturing for the electronics universe. We now estimate Amber's Revenue/EBITDA/PAT to grow at 23%/28%/56% CAGR over FY24-27E.

Result Highlights

- Quarter summary** – Amber delivered strong performance with Revenue/EBITDA beating estimates by 41% and 45% respectively. Revenue growth stood at 82% aided by channel filling coupled with new products and customer addition.
- Margins** – Gross margins has seen contraction of 210bps yoy basis, while EBITDA margin has improved by 33bps Gross margin at 20.1% has been lower on unfavorable product mix towards finished products.
- Guidance** – Management is maintaining its guiding strong 25% FY25 revenue growth for the company on consolidated basis, despite 1HFY25 delivering significantly better performance. 1HFY25 consolidated revenue grew by 55% yoy
- Return ratio** – The company expected return ratios to move higher and is expecting RoCE to improve by 300bps and in longer run it expects RoCE to move towards 19%.

Exhibit 1: Actual vs estimates

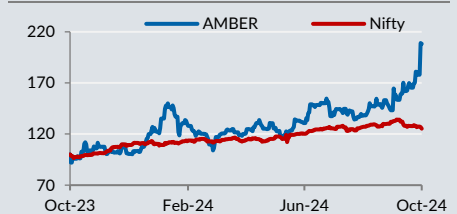
Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	16,847	11,934	12,050	41.2	39.8	Strong revenue growth has been on back of customer addition, new product introduction and channel filling
EBITDA	1,137	781	840	45.5	35.4	
EBITDA Margin (%)	6.8	6.6	6.9	20 bps	-10 bps	
Adjusted PAT	236	-47.5	0.25	NM	NM	

Reco	: NEUTRAL
CMP	: Rs 6,320
Target Price	: Rs 6,684
Potential Return	: +5.2%

Stock data (as on Oct 23, 2024)

Nifty	24433
52 Week h/l (Rs)	6788 / 2721
Market cap (Rs/USD mn)	192270 / 2288
Outstanding Shares (mn)	34
6m Avg t/o (Rs mn):	1211
Div yield (%)	-
Bloomberg code:	AMBER IN
NSE code:	AMBER

Stock performance



	1M	3M	1Y
Absolute return	26.5%	50.3%	126.2%

Shareholding pattern (As of Jun'24 end)

Promoter	39.8%
FII+DII	44.2%
Others	16.0%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	BUY
Target Price	6,648	6,320

Δ in earnings estimates

	FY26e	FY27e
EPS (New)	120.3	158.3
EPS (Old)	116.9	152.0
% change	2.9%	4.1%

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	88,556	107,426	123,880
YoY Growth	31.6	21.3	15.3
EBIDTA	6907	8702	10282
YoY Growth	40.4	26.0	18.2
PAT	2704	4054	5333
YoY Growth	90.7	49.9	31.5
ROE	12.3	16.0	17.7
EPS	80.3	120.3	158.3
P/E	78.7	52.5	39.9
BV	692.9	815.0	973.3
EV/EBITDA	32.9	26.0	21.7

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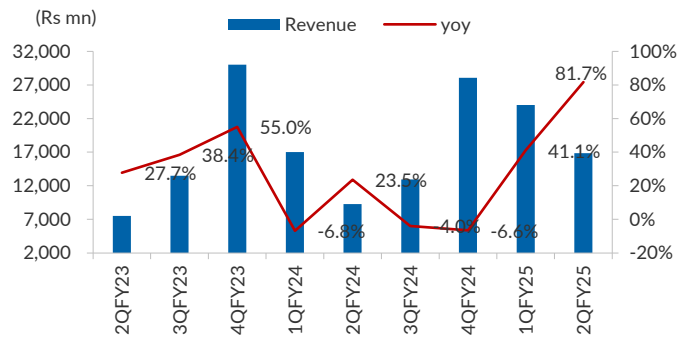
Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	y/y %	q/q %	1HFY25	1HFY24	y/y %
Sales	9,271	12,948	28,055	24,013	16,847	81.7	(29.8)	40,860	26,291	55.4
EBITDA	596	785	2219	1962	1137	90.9	(42.0)	3,099	1,915	61.8
EBITDA Margin %	6.4	6.1	7.9	8.2	6.8			7.6	7.3	
Depreciation	452.2	465.6	514.6	549.4	566.3	25.2	3.1	1,116	885	26.1
EBIT	143	319	1704	1412	571	298.1	(59.6)	1,983	1,030	92.6
EBIT Margin %	1.5	2.5	6.1	5.9	3.4			4.9	3.9	
Interest charges	366	369	483	518	486	33.0	(6.2)	1,005	818	22.8
Other Income	127.5	52.1	180.4	206.8	178.2	39.8	(13.8)	385	321	20.1
PBT	-95	3	1402	1101	263	(377.3)	(76.1)	1,364	532	156.3
Tax	-38	8	388	298	26	(169.2)	(91.1)	324	123	164.3
Effective Tax Rate (%)	40.4	283.7	27.7	27.0	10.1			23.8	23.0	
PAT	-69	-5	1014	780	236	(441.6)	(69.7)	1,016	387	162.4
PAT Margin %	-0.7	0.0	3.6	3.2	1.4			2.5	1.5	
EPS (Rs)	-2.1	-0.1	30.1	23.1	7.0	(441.6)	(69.7)	30	11	162.4

Source: Company, YES Sec

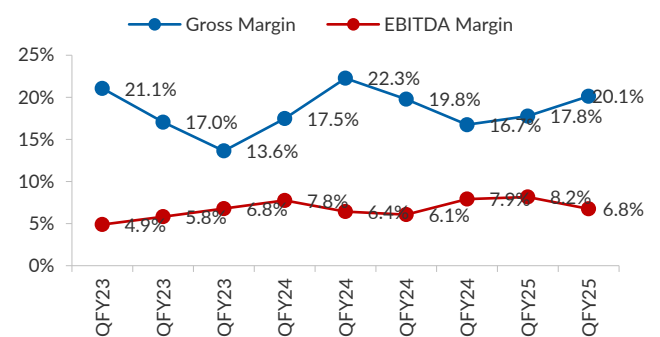
CHARTS

Exhibit 3: RAC inventory filling, new customer addition and introduction of new products have propelled growth



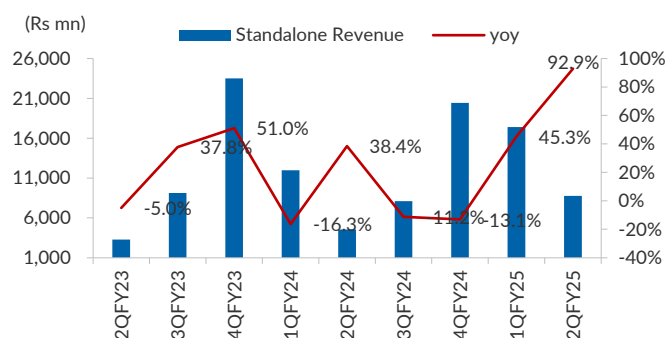
Source: Company, YES Sec

Exhibit 4: Business mix has resulted in gross margin contraction



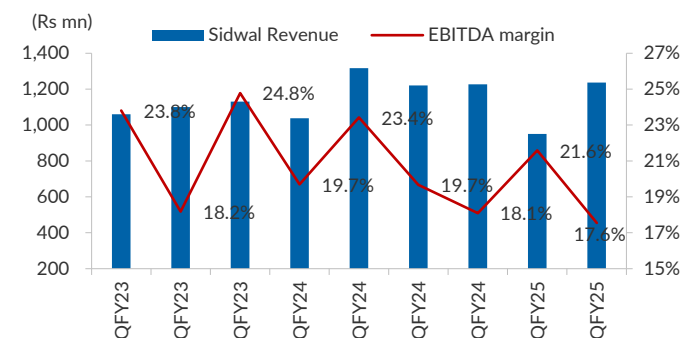
Source: Company, YES Sec

Exhibit 5: New product launches coupled with addition of new customers has led to strong performance



Source: Company, YES Sec

Exhibit 6: Slowdown in execution in railways has resulted in revenue decline, while negative operating leverage has resulted in margin compression



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **RAC industry** – RAC industry is expected to grow 30% in FY25 to 1.3mn units. Amber is growing faster than the industry as it has added new customer and also new products like tower and cassette AC will also enable faster than industry growth. **October and November are also seeing strong RAC sales**
- **RAC Channel inventory** – RAC channel inventory is now at the normalized level. **Q3 and Q4 will be better as demand is channel filling by brands will start from December.**
- **Accent circuits** – The new plant will come in Hosur near Chennai, which will double the capacity and investments will be to the tune Rs6.5bn. This plant will manufacture multilayer bare board PCB.
- **Korea circuits JV** – Through JV with Korea circuits the company will manufacture HDI, Flex and substrate PCB. **Korea circuit will buyback full capacity for first two years and then it will taper off post that. Korea circuits JV has been signed. Large capex for Korea circuit would come in FY27 only land cost will be there in FY26**
- **Railways** – Railways business has been muted as there has been shift of railway to focus on procuring of non-AC coaches, however this slowdown is transient as there have been no order cancellation and execution will start improving from next fiscal.
- **Gross margins** – Gross margins are lower on back of higher sale of finished goods and gross margin will be higher when the components sales are higher.
- **Electronics business** – Asset turn in PCB are low and ranges from 0.75x to 1.25x depending on complexity of PCB. States and central government are together giving subsidy of 50-55% and hence the company has to invest 40-45% and then the asset turn becomes higher. **The company expects double-digit EBITDA in next 2-3 years**
- **Net debt** – Net Debt at the end of Q2 stood at Rs12.7bn. The company expects net debt of Rs7-8bn by end of FY25
- **Capex** – Capex for Accent circuits will be Rs6.5bn in next 2 years. **Capex for FY25 would be Rs3.5bn to 3.7bn and additional investments would be Rs1.35bn in increasing stake in JV**
- **Accent circuits** – Revenue from accent circuits in Q2 was Rs830mn and operating EBITDA Rs165mn
- **Capacity utilization** – Utilization for components plants 60-65%, while for RAC utilization on annual basis would be 40-45%, but on seasonal basis its would be 75-80%. Company can do 40-45% higher revenue without incurring additional capex.
- **New customers** – **The company has added new customers from automobile space in the electronics division.** The company is doing 1mn smart watches PCB on monthly basis.
- **PLI incentives** – FY25 amber is expected to receive Rs360mn of PLI incentives of which Rs300mn will be for Amber and Rs60mn will be in ILJIN. The company is not passing on PLI benefits to the customers.
- **Cashflow** – Negative operating cashflow is on account of lower trade payables as payables have paid in 1H, this is normal phenomenon. It will get normalized by year end.

FINANCIALS

Exhibit 7: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	337	337	337	337	337
Reserves	18,751	20,307	23,011	27,124	32,457
Net worth	19,088	20,644	23,348	27,461	32,794
Debt	13,437	14,332	15,864	14,864	12,864
Deferred tax liab (net)	978	1,378	1,378	1,378	1,378
Other non current liabilities	2,114	4,383	4,383	4,418	4,454
Total liabilities	35,617	40,736	44,972	48,119	51,489
Fixed Asset	20,994	27,493	30,205	31,939	32,736
Investments	1,939	2,178	2,178	2,178	2,178
Other Non-current Assets	3,052	3,771	4,311	4,789	5,202
Net Working Capital	6,400	5,976	6,845	7,581	8,266
Inventories	10,913	8,408	12,519	15,187	17,513
Sundry debtors	17,631	15,693	21,593	26,194	30,206
Loans and Advances	19	22	29	36	41
Sundry creditors	23,039	21,671	28,257	34,278	39,480
Other current liabilities	3,719	3,430	4,453	5,363	6,158
Cash & equivalents	3,232	1,319	1,432	1,633	3,107
Total Assets	35,617	40,736	44,972	48,119	51,489

Source: Company, YES Sec

Exhibit 8: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	69,271	67,293	88,556	107,426	123,880
Operating profit	4,179	4,919	6,907	8,702	10,282
Depreciation	1,391	1,865	2,128	2,352	2,536
Interest expense	1,118	1,670	1,848	1,635	1,351
Other income	527	553	683	704	732
Profit before tax	2,197	1,937	3,614	5,418	7,127
Taxes	559	519	910	1,364	1,794
Minorities and other	-	-	-	-	-
Adj. profit	1,638	1,418	2,704	4,054	5,333
Exceptional items	-	-	-	-	-
Net profit	1,638	1,418	2,704	4,054	5,333

Source: Company, YES Sec

Exhibit 9: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	3,315	3,607	5,462	7,053	8,478
Depreciation	1,391	1,865	2,128	2,352	2,536
Tax paid	(559)	(519)	(910)	(1,364)	(1,794)
Working capital Δ	(187)	424	(869)	(735)	(685)
Other operating items					
Operating cashflow	3,960	5,377	5,812	7,306	8,535
Capital expenditure	(6,944)	(8,365)	(4,840)	(4,086)	(3,333)
Free cash flow	(2,984)	(2,988)	972	3,220	5,202
Equity raised	108	138	0	58	(0)
Investments	320	(239)	-	-	-
Debt financing/disposal	3,119	895	1,531	(1,000)	(2,000)
Interest paid	(1,118)	(1,670)	(1,848)	(1,635)	(1,351)
Dividends paid	-	-	-	-	-
Net Δ in cash	246	(1,913)	114	200	1,474

Source: Company, YES Sec

Exhibit 10: Du-pont analysis

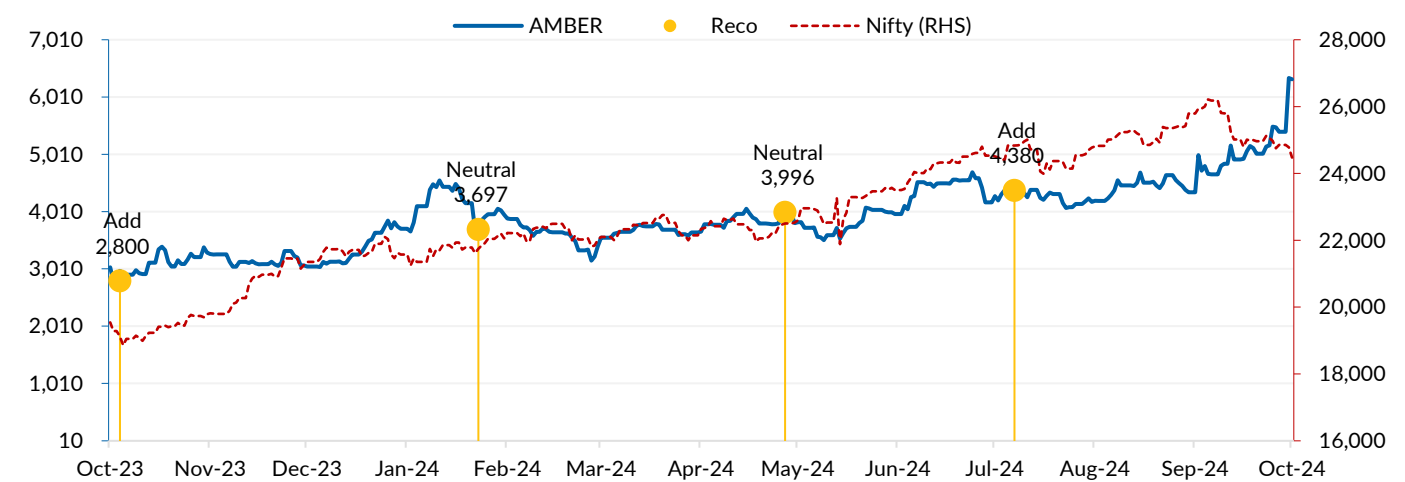
Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Tax burden (x)	0.75	0.73	0.75	0.75	0.75
Interest burden (x)	0.66	0.54	0.66	0.77	0.84
EBIT margin (x)	0.05	0.05	0.06	0.07	0.07
Asset turnover (x)	1.24	1.05	1.23	1.30	1.34
Financial leverage (x)	3.06	3.23	3.27	3.26	3.07
RoE (%)	9.0	7.1	12.3	16.0	17.7

Exhibit 11: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
Growth matrix (%)					
Revenue growth	64.7	(2.9)	31.6	21.3	15.3
Op profit growth	51.8	17.7	40.4	26.0	18.2
EBIT growth	65.2	8.8	51.5	29.1	20.2
Net profit growth	47.1	(13.4)	90.7	49.9	31.5
Profitability ratios (%)					
OPM	6.0	7.3	7.8	8.1	8.3
EBIT margin	4.8	5.4	6.2	6.6	6.8
Net profit margin	2.4	2.1	3.1	3.8	4.3
RoCE	11.0	10.7	14.7	17.3	19.3
RoNW	9.0	7.1	12.3	16.0	17.7

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
RoA	2.9	2.2	3.8	4.9	5.8
Per share ratios					
EPS	48.6	42.1	80.3	120.3	158.3
Dividend per share	-	-	-	-	-
Cash EPS	89.9	97.4	143.4	190.1	233.6
Book value per share	566.5	612.7	692.9	815.0	973.3
Valuation ratios					
P/E	130.0	150.2	78.7	52.5	39.9
P/CEPS	70.3	65.3	44.1	33.2	27.1
P/B	3.1	3.2	2.4	2.0	1.7
EV/EBIDTA	53.4	45.9	32.9	26.0	21.7
Payout (%)					
Dividend payout	-	-	-	-	-
Tax payout	25.4	26.8	25.2	25.2	25.2
Liquidity ratios					
Debtor days	92.9	85.1	89.0	89.0	89.0
Inventory days	57.5	45.6	51.6	51.6	51.6
Creditor days	121.4	117.5	116.5	116.5	116.3

Recommendation Tracker



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2	Research Analyst or his/her relative or YSIL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the research report	No
3	Research Analyst or his/her relative or YSIL has any other material conflict of interest at the time of publication of the research report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSIL has received any compensation from the subject company in the past twelve months	No
6	YSIL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSIL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSIL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSIL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSIL has been engaged in market making activity for the subject company(ies)	No

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

Analyst signature

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