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5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

AMBER ENTERPRISES

WHAT WE LIKE

STRONG GROWTH LEVERS

An ever-increasing diversified product portfolio includes **RAC, RAC components, Non- AC components, Roof Mounted AC, HVAC products, commercial AC,** and more.

A Wide Customer Base with players like **Panasonic, Daikin, LG, Hitachi, Whirlpool, Voltas, Godrej, Blue Star, Havells,** and **online resellers** like **Micromax, Flipkart** and **Amazon.**

RAC industry in India still has **low penetration of 7% vs global average of 30%** (as of 2020) highlighting **good room for industry expansion.**

SUBSIDIARIES COVERING ENTIRE INDUSTRY SPECTRUM

PICL: Market leader in the domestic AC motors market. **(AC Components & Backward Integration)**

IL JIN: Makes (Printed Circuit Board) **PCBs** for all kinds of white goods. (**AC Components & Backward Integration**)

EVER Electronics: PCB assembler for ACs, Fridges, Washing Machines, etc. (**AC Components & Backward Integration**)

Sidwal: Manufactures **HVACs** for trains, buses, other mobile units. (**Expansion into parallel industry segments**)

GROWTH POTENTIAL IN COMPONENTS & SIDWAL

The **upcoming PLI scheme for RAC components should provide a good domestic demand for component makers like Amber.** It should also help the company **realize the export potential for RAC components.**

The **rise of various metro projects and the expansion of the AC segment in Indian Railways** should also provide **a good growth opportunity for Sidwal.**

Finally, **the China+1 strategy should provide a good export opportunity for finished goods** for Amber.

THE RISE OF OUTSOURCING IN RAC INDUSTRY

The share of outsourcing in RAC industry has increased to **38-39%** (vs.16% in FY13-14).

Amber's share in the RAC outsourcing industry remains stable at a dominant 60% bringing the overall industry market share to 24% currently.

The increase in customs duty on finished units has resulted in a decline in imports, **which is beneficial for companies like Amber** as OEMs look for local suppliers to substitute imports.

WHAT WE DON'T LIKE

LARGE WORKING CAPITAL REQUIREMENTS

This industry continues to be highly working capital intensive. The company has reduced debtor days from **104 days in FY19** to **56 days in FY21.** But 56 days is still very high in absolute terms indicating that the company has to maintain a large amount of WC at all times.

NO LONG TERM SUPPLY CONTRACTS WITH CUSTOMERS WITH ZERO PRICING POWER

Being an outsourced contract manufacturer, **the company traditionally has low operating margins and almost no pricing power. It also doesn't have any long term supply contracts in place with customers** and purchase orders can easily be **amended or cancelled prior to finalization according to management commentary in its DRHP from 2018.**

INSUFFICIENT CASH GENERATION

The CFO for the company was negative in FY19. **CFO for the company has improved a lot in the last 2 years but it is still insufficient** to maintain its continuous investment in increasing capacity & making acquisitions. **As Amber is growing it is essential that its internal cash generation be able to fill its capex needs or it will need to keep on raising funds through external means to fuel its growth.**

DEPENDENCE ON IMPORTS FOR COMPRESSORS

Despite covering almost all of the components spectrum in the RAC industry, **the company is still dependent almost entirely on imports for sourcing compressors.** Although the compressor industry in India is seeing good investments recently for capacity expansion, **it will still have to stay dependent on imports till compressor industry capacity scales up to be able to meet domestic demand requirements fully.**

SKY HIGH VALUATIONS

The company has had stellar sales and profit growth with **5 yr sales CAGR of 23% and 5 yr PAT CAGR of 29%.** Given the dominant share that Amber enjoys in the domestic RAC outsourcing market, it is reasonable to expect high valuations from this stock. But recently the stock has rallied to a **valuation of greater than 99 times TTM earnings which clearly appears to be unsustainable.** Thus any adverse impact to the company's sales or the industry may cause the valuation to crash very steeply.

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