"Amber Enterprises India Limited
Q2 FY21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Amber Enterprises India Limited Q2 & H1 FY21 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Jasbir Singh- Chairman & CEO of Amber Enterprises India Limited. Thank you and over to you Sir!

Jasbir Singh: Hello and good morning everyone, first and foremost I hope you all are keeping safe and healthy. On the call I am joined by Mr. Daljit Singh, Managing Director, Mr. Sudhir Goyal, Chief Financial Officer and Strategic Growth Advisors, our Investor Relation Advisors. We have uploaded our result presentation on the exchanges, and I hope everybody had an opportunity to go through the same.

I would like to open my remarks by giving a brief overview of the business environment, and industry updates followed by government initiatives and our strategy for the same. Following the operational and financial performance for Q2 and H1 FY21.

Post easing of the lockdown restrictions, Q2 went well for the overall Room AC industry and surprisingly have witnessed an uptick in the retail demand for room ACs in Q2 FY21 itself. We saw uptick in sales due to the pent-up demand. Overall consumer durable and electronics industry has witnessed a positive momentum in Q2 FY21. The channel inventory levels are back to normalize level and we anticipate growth for H2 FY21. Of course, subject to no further lockdowns happened due to second wave of COVID.

This was on the business environment. Let me spend some couple of minutes on RAC industry updates. In the recent notification issued by DGFT, import of refrigerant fill air conditioners have been prohibited. The Indian Government has taken initiative towards self-reliance, and Aatmanirbhar Bharat, and ban on import of RACs is one of the steps towards this initiative. This has opened up opportunities for domestic manufacturing.

As per industry estimates 30% of fully build RACs were being imported in India valued at approximately 4000 Crore plus. These were primarily CBUs (Completely Built Units), which were refrigerant fill. Also, an equivalent worth of components are being imported in India and we envisage that the move from the government will help local sourcing of RACs.

It will not be easy for OEMs to import non-refrigerant fill ACs and unpack and then fill the gas and get the unit tested and supplied to the different locations across the country. This will primarily incur extra cost from gas filling perspective as well as it will create a logistical hassle for the OEMs. It also negates the economic benefits of importing to a large extent.

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As per the above-mentioned challenges, we believe that the local manufacturing and sourcing of RACs in India will increase. Amber is well placed to capitalize this opportunity as one stop solution provider to its customer and HVAC Industry.

Having said about the opportunities, I would also like to highlight on our capabilities and readiness to cater on the same. We have kept ourselves ready and have successfully completed a QIP of Rs. 400 Crores in Q2 FY21, which got oversubscribed by more than 5.5 times. The money raised from QIP has been temporarily been used for paying of the debt, Capex, working capital and acquisition of balance 20% stake of Sidwal. With this opportunity in hindsight coupled with growth capital recently raised, we are all geared up for the growth in domestic manufacturing of RACs and its components and would endeavor to grab most of the market share. We believe this opportunity will further strengthen our presence in the domestic market and create a solid foothold for exports market.

The China Plus One strategy is also unfolding opportunities for emerging markets. We have already started getting inquiries, RFQs from big global players for RACs as well as components. We have started component exports to nearby countries and to US as well. However, the export opportunity will play out in the mid to long-term because of various reliabilities and product developments for the suitable markets.

In addition to our wide range of room air conditioners with multiple SKUs across all star rating and tonnage including inverter ACs, we have successfully launched our wide range of offering in commercial air conditioner segment also.

We have also strengthened our product portfolio for railways, metros and bus air conditioning in Sidwal with surge in demand for air condition coaches and multiple upcoming metro projects across the country. Going forward, we are optimistic of growing this segment as well.

We are continuously investing in R&D for new product developments and better energy efficient products. With this we will be future ready with the product portfolio to cater to the increasing demand across segments.

I will now take you through the consolidated financials

On revenue side, our consolidated revenue of Q2 FY21 stood at Rs.408 Crores as against Rs.623 Crores in Q2 FY20 a degrowth of 35%. This was majorly due to full season loss in Q1 FY21, which had led to pileup of inventory in the system, which we believe are near normalize levels now.

For the quarter, RAC contributed 36% of total revenues while components and mobile application contributed 64% of the revenues. We have been witnessing good traction for our component business across verticals, however the skew towards component in this quarter will also attribute to lower RAC sales.

On operating EBITDA for Q2 FY21, we witnessed an operating EBITDA of Rs.22 Crores are against Rs.39 Crores in Q2 FY20. The drop in revenues led to the de-operating leverage playing out. Operating EBITDA excludes Rs.2.2 Crores on account of fixed asset written-off and loss on sale of fixed assets.

We have resorted to various cost rationalization program to curtail our fixed and semi-variable expenses of which some of the benefits will be retained on long-term basis. Operating EBITDA margins for Q2 FY21 stood at 5.4% as compared to 6.2% in Q2 FY20. This is primarily also because we are in the seasonally weak quarter. PAT for quarter stood at Rs.3 Crores as compared to 12 Crores in Q2 FY20.

Now coming to subsidiaries financials

On Sidwal, our railway and metro business segment has been able to withstand all the challenges from COVID-19. We have been able to acquire new orders and strengthen our order book despite weak economic scenario. Q2 FY21 revenues were Sidwal, stood at Rs.47 Crores and operating EBITDA stood at Rs.13 Crores. H1 FY21 revenues for Sidwal stood at 77 Crores with operating EBITDA at Rs.18 Crores. H1 FY21 operating EBITDA margin for Sidwal stood at 23%. We have utilized this time to enhance our capabilities in R&D. We have strengthened our commercial and bus and truck refrigeration solutions along with continuous development for metros and railways as well.

We believe that over long-term period with increasing footprints of metro in various cities and increased manufacturing of air condition coaches we are confident of achieving good growth in Sidwal on a long-term basis.

On PICL our motor subsidiary, revenue for PICL stood at Rs.17 Crores for Q2 FY21. For Q2 FY21, the PICL business saw an operating EBITDA loss of Rs.0.6 Crores. In PICL, we have been working on new product development for various applications and markets. PICL has successfully widened its product offering from current PSC motors to BLDC motors. PICL is also in discussion with various customers to launch motors for washing machine and higher voltage motors for commercial AC segment. It has also been approached with RFQs from various large global manufactures based out of US and Middle East. With increase in product offering and enhancement in our capabilities, we believe we will be able to create a domestic and export markets in more meaningful way in the near future.

On IL JIN and EVER for Q2 FY21, revenue of IL JIN stood at 81 Crores and in EVER revenue stood at 45 Crores. H1 FY21 revenue for IL JIN stood at 98 Crores and EVER 62 Crores. With increasing efficiency, newer product mix addition of new customers and cost rationalization efforts, we have been able to increase EBITDA margins for IL JIN and EVER. Operating EBITDA margin for IL JIN in Q2 FY21 stood at 7.4% as compared to 5.7% on YoY basis. Operating EBITDA margin for EVER stood at 5.9% as compared to 5.4% on YoY basis. H1 FY21 operating EBITDA margin for IL JIN stood at 4.4% and EVER at 2.3%.

As the market is moving rapidly towards inverter ACs, we are confident of growing our revenue share from IN JIN and EVER going forward. We have been adding customers in both IL JIN and EVER and now post completion of reliability of our own developed inverter PCB board, we expect to add more business in this ILJIN and EVER in coming years.

Our net debt on consolidated basis for September 30, 2020 stood at 178 Crores. The money raised from QIP has been temporarily been used for paying out the debt until the new Greenfield facilities are in pipeline.

To conclude, I would like to reiterate that our constant endeavor would be to increase penetration and increase our wallet share in the existing customers continuously, add new customers, create a foothold in the exports market and enhance our products with new technologies by focusing on R&D.

With this I open the floor for discussion.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: You had mentioned in your opening remarks that, given the fact that inventory levels in the retail system has normalized. So, I just wanted to check with you, so in the second half you had mentioned that you will be seeing growth. Is it like will we seeing strong double-digit growth because companies also would be lifting more material given the fact that retail demand has picked up? So, if you can touch upon that more.

Jasbir Singh: So, basically my belief is that inventory levels, which were held up when the lockdowns were announced of about 2.2 to 2.24 million air conditioners have now been consumed and it is back to normalized levels /pre-COVID levels. There are some brands who are witnessing some positive uptick and there are some brands who are still at negative number, but on a consolidated number on the industry side I think what we expect is that quarter four should be a very positive quarter for the industry.

Giving a number on whether it will be high double-digit or single-digit growth is really difficult at this time, but, yes, industry is expecting a good kind of summers in coming quarter 4.

Ravi Swaminathan: My second question is with respect to this notification of this refrigerant, that benefit, I mean, those volumes do we expect it to come this year itself or do we expect incrementally company starting the outsource to you say next year onwards.

Jasbir Singh: So, Ravi when this notification came before the notification implementation date anybody who has released letter of credits are allowed to import the shipments. So, I believe that the real impact of the notification will start coming into from February onwards. So, February and March is when we are expecting volume increase from this ban on the refrigerant air conditioner import. I think largely the impact will be in the next financial year.

Ravi Swaminathan: My last question is with respect to volumes for this quarter, how much was it and now what is the current capacity utilization across branch?

Jasbir Singh: So, volumes for Q2 would be 1.9 lakh units and capacity utilizations are at a lower level right now. We would be almost less than about 45% to 50% range.

Ravi Swaminathan: Got it sir. Thanks a lot sir.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Sir, my first question is on the export side. Just wanted to understand, how are you seeing this opportunity shaping up, what kind of timelines would be required to meet all the reliability tests, which are the customers for which these tests may have already gotten concluded and how would you essentially look at revenues ramping up for this opportunity?

Jasbir Singh: Exports have actually two verticals to look at. One is from the component side and another one is from room air conditioner side. On components, we have already crossed the leg of reliability with some customers and that is how exports have started. With some other customers who have just recently started participating in the RFQ side. So, we believe that by FY21 the developmental cycle will be over with them and by FY22 we expect some good orders coming in hand from those customers as far as components are concerned.

On room AC sides because the markets this is the one product, which needs reliability testing and the structure of the products which we use here in India are not the similar structure products what are used in US markets so we have started developing these products, our first sample will be ready to be shift out by January and next year complete calendar year will be reliability testing and approval cycles. So FY22 is when we are expecting room AC exports calendar year to start.

Aditya Bhartia: And sir when we speak about components, is motors going to be the biggest opportunity, are you seeing opportunity on other verticals?

Jasbir Singh: So, you have started exporting motors and heat exchangers and we are also now talking to some customers for PCBs also, but PCBs have not yet started exporting, it is just on the initial stages of discussions.

Aditya Bhartia: And sir, if you remember correctly when we have acquired PICL roughly 50% of revenues used to be from exports and then those revenues, export revenue had come off. What would be that the portion currently, and how would you see that changing over the next three years?

Jasbir Singh: You are right PICL used to export largely to Saudi Arabia and then when the oil crisis hit, PICL was hit and we have changed this strategy towards domestic. Today the percentage in

PICL is about closed to about 20% is exports and 80% is domestic. We expect this change in numbers to go up at least by about 60:40 ratio in coming two to three years time.

Aditya Bhartia: Secondly sir, on the commercial air conditioning side, would be very eager to understand how exactly are you seeing that particular opportunity. How large the market is, which are the product verticals wherein will be operating and how your initial discussion with customers be?

Jasbir Singh: So, our entering into commercial AC space, we have actually enhanced our horizon of addressable market and that market is substantially good market to be in and we have just launched two products right now, which we have started shipments also. During the lockdown itself we got approvals and shipments have started, but on a very low volume right now and we are now in pipeline to build up the whole product portfolio of about 18 to 20 products in next two to three years' time. So once the whole product offering is ready with us, we expect a good volume. Number, we cannot give right now because it is at a very early stage, but I can say that we will witness a good growth out of commercial AC segment.

Aditya Bhartia: And sir the products wherein will be operating how large is the market likely to be for that, and what portion of customers would be the same as the ones whom we have to reaching on the Room AC side?

Jasbir Singh: Some of the customers are same and some are the new customers and the market size, there are different research reports available, but as far as the ductable market is concerned, it is close to about 4000 Crores market, and if we add on VRV side also that is another 2500 Crores. So, it is about closed to 6500 Crores of addressable market which we are trying to get now.

Aditya Bhartia: Understood sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Sir I had two questions. First, can you just share the outlook in terms of Sidwal, what is the current backlog, and we were expecting finalization couple of large more orders. So how have we moved on that both in terms of order book visibility as well as numbers delivering now in terms of our volumes can increase for the rest of the year?

Jasbir Singh: So, in Sidwal recently we have one large tender from, in fact two tenders from DMRC Delhi Metro Corporation. So, these are about, closed about 98 Crores, and then on the revenue side it is 77 Crores for H1 and EBITDA of 18 Crores.

Renu Baid: And sir broadly in terms of the timelines of execution of the overall backlog we had mentioned of close to 250 Crores plus of order book in the business. So, are we looking at timelines of next 12, 15 months or it should be broadly doable within the next two year? So how are we looking in terms of visibility from this portfolio?

Jasbir Singh: So, backlog has actually increased now with the new orders coming in. So, we are having an order book in hand close to about 350-odd Crores, which will be delivered in 18 to 24 months' time.

Renu Baid: And we did not mention that in the second half we expect the overall volume in the RAC segment to improve for us. Last year we did approximately 1.5 million units. So, this growth that we are expecting is predominantly led by the existing brands? Or the markets getting back to normalcy and pent up coming in 4th quarter or these volumes were also include new customer volume addition because of the recent imposition of import duty and have we already started seeing stuck-up in volumes from customer as and shares some more input in terms of how has your order books moved in sort of the month of October, November and this quarter based on the current market environments.

Jasbir Singh: So Renu in October, we have done flattish kind of a sale as compared to last year quarter, last year October, and I believe that quarter 3 should be a kind of a flattish quarter and quarter 4 should be a good growth quarter because in February and March the implication of the ban also will also coming in. So, we expect growth in total H2 of FY20 current year, and on the industry side I think industry is also looking into a good growth for quarter 4 right now and in Q3 people have started picking little bit on the inventory side as far as the finished goods are concerned so we believe recent growth coming in quarter 4 because there is no large inventories in the pipeline now.

Renu Baid: And my last question is, when we overall look in terms of the business both from a working capital as well as Capex side. By now would we be having more clarity in terms of the capex timelines and the quantum for the facility being proposed in South India and do we expect the overall working capital and pricing environment to improve given that commodities are moving Northwards. So, would be able to take on the cost increases in the second half volumes look to improve.

Jasbir Singh: Yes, we were already talking to the customers because as I explained you last time that we move, the whole industry moves with the quarter lag of the impact. So that is already in the discussion with all the customers, and some of the customers have also revised it and some are on the way to revision it, and I think moving forward on the working capital side, we should be okay, we are, I think we do not have any debts on the books and also I believe that moving forward the kind of cycles we have able to negotiate with the customers it should be okay for us.

Moderator: Thank you. The next question is from the line of Naval Seth from Emkay Global. Please go ahead.

Naval Seth: Thank you for the opportunity sir. I have two questions, first if I you know take from your remarks and look at the numbers of listed companies. Somehow there seems to be a disconnect where your AC values are down plus or 50%, but primary sales for Voltas or Blue Star or Hitachi is down less than 20%. So, there are and in terms of liquidation of inventory that is also at normalize level. So why we have underperformed for second consecutive quarter over here.

Jasbir Singh: So Naval, basically you are actually taking inputs from only listed entities whereas we have 42 brands working in the market and we work with most of the brands and some of them are unlisted also. So, some of the players they have, they already had lot of inventories with them apart from the channel inventory. So that is what is being liquidated right now and in quarter 3 just in the October as I told that we have come to pre-COVID levels. So that is the reflection that orders have started coming in, and things have started moving in a very positive direction.

Naval Seth: Sir, what was the industry declining in first half, if you can share that.

Jasbir Singh: So, industry as per our estimates decline is 32% to 33%.

Naval Seth: And second question on import restrictions obviously you would have seen increased kind of customer interaction. So, any new customer wins, which you would have highlighted because by Feb or March as you highlighted by the time your capacity would be 100% utilized because of the preorders. So, will those kinds of volume get lost somewhere or who will cater to those volumes over there in Feb and March if at all those players who will start looking at volumes by then because of the both restrictions.

Jasbir Singh: So, we are in fact basically I would say added four new customers and large customers we cannot name them right now because NDAs had been signed and we are looking forward for a good volume from them largely they were importing 100% of their requirement earlier and we are in talk with further core customers to be added. So, these first four have already been confirmed and now next four we are talking to and I think in next 15 to 20 days that we also be confirmed, but all the volumes from these new customers will start in February onwards. So that they do have inventory right now and some of these shipments coming on the way.

Naval Seth: Understood, fair point. Thank you so much and all the best.

Moderator: Thank you the next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.

Madhav Marda: My question was on the export side once the reliability cycle etc., conclude next year. Just wanted to understand how we are placed from the cost competitiveness versus the other companies or countries which are exporting to the US and in terms of product R&D if there is anything that we need to sort of catch up on or if you are already there with the new sample that we are planning to launch, if you could give us some sense sir.

Jasbir Singh: So basically, on export front especially on the room air conditioner front, China and Thailand are the two large exporters of out of close to about 65 million air conditioners are exported, 80% are exported out of China and 20% is done by Thailand. So, if we compare the costs of the products of 1.5 tonne, 2 tonne, we are almost at par with Chinese and Thailand players. There are some countries who do have FTAs with Thailand. So, there we are right now noncompetitive, but with the countries where there is no FTA, we believe that we will be able to match apple-to-apple cost with for 1.5 and 2 tonnes. On 1 tonne we still have to work towards because 1 tonne is a large market which is catered from China in a huge volume. So that is where I believe, we will take at least two to three years' time as we scale up and economies of scale will come and then we will get competitive in that zone also.

Madhav Marda: And of the 65 million units which are exported, how much, is there any broad split for the 1 and 1.5 and 2 tonne AC.

Jasbir Singh: Largely no. We do not have the number right now on the split because every country has a different kind of split on this. So, some of them use 1 tonne and some are using 1.5 and 2 tonnes and there are again differences in the wall mounted split versus floor mounted split and cassette type air conditioner so it is a big matrix to be looked upon on a country-to-country site.

Madhav Marda: And may be on the PCB side so IL JIN and EVER how are we doing on the reliability cycle and by when do we see revenues picking up in a good way from these two subsidiaries?

Jasbir Singh: So, in IL JIN and EVER with four customers we already crossed reliability cycles of our own developed invertor PCB board and we have started getting orders. We have already started shipping; mass volumes will start picking up from next financial year may be March onwards and three new customers are right now in pipeline where reliability have started. So, I think in the next financial year those that reliability cycle also will complete.

Madhav Marda: Thank you.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: My broad question is on the long-term growth driver. So, what I question is that Amber's growth would a) reflect the AC industry growth whether it is consumer AC or commercial AC that the outsourcing is a trend would become faster than the industry growth rate itself of the AC and third hopefully Amber share within the outsourcing industry would expand. Therefore, these cumulative trends will drive the long-term growth of Amber. Is that do I believe that the trend is basically intact?

Jasbir Singh: Yes, you are right, the trend is very much intact. Earlier when we got listed in 2018 January, almost 34% of the industry was outsource. Now that number has further gone to about 48% or so and our share from earlier 55% has gone up to 70% now in the outsourcing demand and the outsourcing growth is actually more in CAGR term rather than a normal retail market growth. Market is growing, industry is growing at about 12%, whereas OEM business has seen growth of almost about 18 to 17%.

Bharat Shah: And to that exports is an opportunity, components is an opportunity, will there, there is an extra over a period of time.

Jasbir Singh: Yes, sir export is a very big opportunity on a long-term basis where we have just started taking baby steps and we are seeing some green shoots also now on component side. Room AC is, we still need to crack, but we have started working on that and the team is working in a right direction and we believe in next calendar year we should be able to complete the reliability cycle of room AC for certain countries and by 2022 we should expect some orders coming for room AC also, but on a long-term basis we expect that as the economies of scale will ramp up here in, in domestic market that will also give us more leverage for exports, becoming more competitive also. On the component side we have already started exporting and we believe that especially motors will see larger traction in next year and next to next year, heat exchangers another component also will start exporting.

Bharat Shah: Which means component industry driven growth would probably fructify earlier in about say 2, 3 years' time we able to have a good eyesight of where we are headed and probably of the full units may take a little longer period in terms of the growth.

Jasbir Singh: Yes.

Moderator: Thank you. The next question is from the line of Vikas Khemani from Carnelian Capital. Please go ahead.

Vikas Khemani: Can you give some more guidance or idea about how should one think about the growth in the component side of the business and how large that could be air conditioner part I think one I have get some sense understanding, but how one think about in little bit of more detail if you can share.

Jasbir Singh: So, on component side we have six verticals in components and we have addressable market of entire consumer durable markets not only room air conditioner side. So, in room air conditioner today only 25% value addition is happening in India and 75% components are being imported where government is still thinking to bring up another policy intervention of phased manufacturing program on the component side by increasing some duties every year so that gradually these components starts getting manufactured here. Right now, almost to a tune of close to Rs. 5,500 to 6,000 Crs worth of components are imported in air conditioner itself. So, if air conditioner CAGR remains to in a range of 14% to 15% level we can see that there is going to be an addressable market of almost about $2 billion worth of components, which we can settle. Out of that we do not address compressor, but we address motors and PCB and heat exchangers another component on AC side. Plus, the refrigerator, washing machine and microwave oven, water purifiers where we are addressing that is space which is growing very well. In fact, in Q2, our complete revenue shift has happened. 64% revenue is being contributed by components and out of that 64% almost 60% has come from non-AC components. So, our strategy of addressing components in consumer durable including our ACs as well as complete finish goods is playing very well for us.

Vikas Khemani: Right so, I mean, that is what I saw the trend in your business. So, is it fair to say that over three, four years, five years, component will be a solid part of the strategy and in fact it seems it is actually status across not only refrigerator, but across products? Will it be a higher growth part than the AC?

Jasbir Singh: While that cannot be predicted right now but yes in case we are expecting growth in all the consumer durable sector like refrigerator, washing machine, microwave and water purifier. The all sectors are growing in double digit and AC is of course one of the products which is the lowest penetrated level. So, it will depend on the product mix, but moving forward, if, as I take you little bit back when we got listed our revenue split was almost 75%/25% range. 75% was RAC and 25% was component. Last year we came to 60%/40% level and what we expect is in next three to four years' time this split should come to 50%/50% level.

Vikas Khemani: How do you see margins in this part of the business on the component side?

Jasbir Singh: We have a range of component starting from closed to 6%, 5.5% till 12% range so it will depend on what product mix opportunity we give up, but I think it should be in the range of almost RAC range.

Vikas Khemani: And finally, on the exports front, which are the markets, we think only key driver, you have mentioned Saudi, but is that is Middle East in the market are the only market I think are you seeing any other areas of geography opening up and anything on the developed market standard policy?

Jasbir Singh: So Vikas Ji we have already opened our sales office in US, and we have senior level team placed now in US. So, US is one big market which we are expecting. Qut of 65 million, 20 million air conditioners are imported in US itself. So that is one big path where we are focusing, and second is the complete Middle East part including Saudi Arabia. So, these are two geographies where we are focusing right now but having once we are ready with the product profile of course the neighboring countries like Bangladesh, Sri Lanka that also will be catered by us.

Vikas Khemani: Okay. Thank you, sir, all the best.

Moderator: Thank you. The next question is from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia: Sir, thanks for the opportunity. Just couple of question. You had mentioned that you are looking and closing down on four customers would be on board with you February and another three to four in the pipeline. Could you just help us with what kind of volume opportunity that entitles you on the room AC side and second question was on exports while six early days and its more two, three year question, but just wanted some color on margin profile as to how you see it right now with this, you be said that in 1 tonne you need to get more competitive and the working capital what kind of margin and asset turns are likely on the export side as you see it right now.

Jasbir Singh: So, on the import ban opportunity, it is an opportunity of close to about 2.4 million air conditioners and we are expecting to grab a majority by out of this opportunity. There is some bit of reflection will be seen from February onwards, but next financial year we will see that large uptake from those volumes will come to us and with all these seven, eight customer we are talking to, out of which four has been already confirmed, and on the exports margin front components are almost at the same level of margins what we are enjoying right now in domestic market and in some countries, in some products like the commercial air conditioner, motor sector that is at the higher margin in Middle East and other parts whereas on the room ACs side, I believe the margins will be little less right now as compared to domestic market, but it make sense for us even at a lesser margin because it is a complimentary business as largely that geography is such that the season of air conditioners in those geographies starts from May, early May till it ends in October, which is a purely kind of offseason for us. So, we will be able to use our capacities much better, asset turns will be better and it will enhance the margins overall on a consolidated basis.

Girish Achhipalia: It is a flexibility, so you and everyone at Amber thanks for the opportunity and wish you all the best.

Moderator: Thank you. The next question is from the line of Ankur S from HDFC Life Insurance. Please go ahead.

Ankur S: Just have a couple of questions on the standalone business first. So, we have seen there is a big fall in the trade payables over the March quarter actually some of the fall in debtors as well. So, what is driving this fall and do you think it will reverse over the next two quarters.

Girish Achhipalia: I will ask Sudhir to answer your question.

Sudhir Goyal: Hi Ankur, trade payables has fallen down reason is that we have to honor our payment to all the peak quarter or peak months payables as on 31st March because on the other side there is no much of a business and we need to honor them and trade receivables are always down because of the COVID. So that will come to a normalize level which you seen in the previous year. In the coming year, this will come back to those levels only because that is our offseason one side sale is not happening and on the other side, we have to honor our payments.

Ankur S: Sir second, if you could just give us a split of your standalone revenues into air conditioners and components, I think you should share that earlier, but it is not there in the presentation.

Jasbir Singh: Yes, so if we see our RAC value it is around 147 CR in Q2 and if I talk about the AC components it is around 90-odd Crores and balance is non-AC components around 171 Crores.

Ankur S: This is offering 200-odd Crores with 22% of standalone revenues, right? Of that how much will be air conditioner and…

Jasbir Singh: It is on the consolidated level, on a standalone also RAC will remain same 147 Crores balance is the AC and non-AC.

Ankur S: And just one last question sir. Now when I look at the cash flows on the standalone again, there has been a loan to related parties of about I think 25-odd Crores, what is that relating to and if you could just tell us something more that?

Jasbir Singh: See we are doing some expansion in one of our subsidiary PICL because there we are getting a new type of motors which is BLDC motors. We are expanding our capacity and also, we are taking a new place, bigger place to cater those additional quantities so for that we have given them the loan. After the proceeds of the QIP that was the object also in our QIP process.

Ankur S: And just one last question to the way, sir on the inventory numbers, I remember you use to share an absolute number I think as of September closer to 1.5, 2 million units. Where would that number be now as we get into say October, November versus say what would have been the number last year. So just to get a sense of when you say that inventory is normalize what kind of inventory numbers are, we talking about here in the channel?

Jasbir Singh: So, when the lockdown was announced there was number coming in a range of 2.2 to 2.4 million air conditioners at the channel inventory and which has come down to close to about 6 to 7 lakhs which was a normal pre-COVID levels.

Ankur S: Okay, great. That is all. Thank you so much.

Moderator: Thank you. The next question is from the line of Chinmay Gandre from Bharti AXA Life. Please go ahead.

Chinmay Gandre: Sir with respect to the import ban which has come through. So, with respect to existing customers how are the legislations going on in terms of commitments or in terms of learn this negotiation like suppose there were maybe 100 Crores kind of a business so that would kind of increased to like what level 120, 100, 130. Any guidance that you can give on this prospect at least with the respect to the existing customers who are already in your plans?

Jasbir Singh: See the existing customer are expecting double-digit growth as for the industry and coming summers, and that is how, that is what they are projecting to us also and on the import ban these were some of the customers were not existing customers. So, they were completely importing 100% of their requirements and now they are talking to us out of which I have told that four of them have been already confirmed and they are large customers multinational company. So, we are looking forward for a good relationship, long-term relationship with them as far as that is concerned. On the number side I would say that out of this 2.4 million which was getting imported. Almost 70% was coming refrigerant filled. Others were only the IDUs. So that 70% we are trying to grab majority of it. I mean I think out of that 70% at least 55% or so is what we are expecting that business will convert into Amber's business.

Chinmay Gandre: And this for last customer would be broadly bringing how much of the business of this 2.4 million?

Jasbir Singh: Well they were the large importers I think, it is very difficult to give number on their behalf, which will not like to comment, but on a basics of overall basis, if I see out of 2.4 million if you see 70% that is something addressable market because of this notification and at this run rate this number would have grown in coming years. So, we can stipulate kind of a matrix out of this number of 70%.

Chinmay Gandre: Okay thank you.

Moderator: Thank you. The next question is from the line of Dhruv Jain from Ambit Capital. Please go ahead.

Dhruv Jain: Thank you sir. Sir one question on the subsidiary margins from my side, we have seen that subsidiary margins have expanded YoY, so just wanted your sense on are these margins sustainable or because of some bit of cost savings these margins will go off in the coming quarter in coming years and how much of this margin expansion has happened going to say gross margin expansion in coming years?

Jasbir Singh: So basically, we have expanded the margins in IL JIN and EVER and Sidwal and we believe some portion of it is contributed because of lower expenses at this moment of time and some portion would be maintained. So, we will see a positivity in the margins as compared to YoY basis in these substances.

Dhruv Jain: Sir if you could just quantify something that how much of it could be cost savings?

Jasbir Singh: Well, it is varying from subsidiary-to-subsidiary like in Sidwal in Q2 if you see we have demonstrated about 27% of EBITDA so at least 1% or 1.5% should be maintainable for us to add on what we used to be last year. In IL JIN if I speak, we are at 7.4% I would say last year it was at 5.5% so somewhere about 0.5% to 0.75% with sustainable uptake out of this number.

Dhruv Jain: Okay thank you sir.

Moderator: Thank you. The next question is from the line of Abhishek Ghosh from DSP. Please go ahead.

Abhishek Ghosh: Thanks for the opportunity. Sir on these 2.4 million units which are getting imported and 70% was rest which is your target market. Are you seeing industry kind of doing any kind of things around to kind of being able to either get it without the refrigerant here and fill it here? Are you seeing that kind of thing happening or Chinese discounting any movements around there?

Jasbir Singh: Yes, so basically, there are two, three solutions to this notification which one is that companies on a long-term some of the companies are completely changing their strategy from outsourcing from China or Thailand to India where we want to capitalize that opportunity for. Second is some of the companies are also thinking of establishing their own factories. So, they are talking to us for component supply on that strategy. Because the notification has just been announced near to the season now in very short time nobody can put up a facility, they need about a years' time at least to come up with the facility. So definitely the stock gap arrangement will be to gas charge at some location may be at our location itself and then in phase two start complete manufacturing.

Abhishek Ghosh: And sir just a related question to this we have 250 brands in this AC and lot of the things were dependent on the import and other things. So, you think this will also lead to consolidation of the market going forward?

Jasbir Singh: It is difficult to predict at the moment. We have been hearing news of consolidation from last five years, but we have not seen any consolidation as of now, but I think yes, in the move may be 5 to 10 years from now of course 50 brands possibility of existing in the market is very difficult. So that will certainly happen, but I would not see that it is in a hindsight of, for next two to three years' time.

Abhishek Ghosh: And sir in that light, so more in the medium-term as these large players even that get bigger. Do you think somewhere it is important that you get scale up business so that your unit cost of production is lower. Otherwise to get pricing from these large players who are really getting larger will be difficult is that the way we should look at it.

Jasbir Singh: So, Abhishek both things will play out. One is definitely the economies of scale as we are getting bigger and bigger definitely that there will be a delta in pricing, but secondly this outsourcing and insourcing strategical decision is not in our hand it is purely in our hand of companies, directors and CEOs, so what we have aligned with all the customer are that whether they want to in source or whether they want to outsource the strategy should not impact us. In fact, we should be deeply penetrated in their wallet share of offering of components and finish good whatever they need. So, we have seen in past companies changing their strategies and our business post their changes of strategies have improved with them. In fact, it has grown multifold. So, our endeavor is if 100 air conditioners today are manufactured in India out of that 24% is being manufactured by Amber today as per our market share so remaining all the ACs should have something or else are made by Amber in it. So that is the strategy which we move on.

Abhishek Ghosh: Sir just 1 last question from my side. The import substitution volumes we just talking about a 2.4 million was 70% and that is the addressable and you close some customers. Are the gross margins inherently better in those products?

Jasbir Singh: It will be in the range of what we are supplying here. So, I would not say that it is better or it is lesser but it will be in the same range of what we have.

Abhishek Ghosh: Okay Jasbir Ji. Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Gopal Nawandhar from SBI Life Insurance. Please go ahead.

Gopal Nawandhar: I just wanted to get us on the competitive landscape in last two years. You know the lot of small, small companies have come up and some are being supported by the larger brands for outsourcing. So, do you believe that the kind of market share gains which you add in the last 2-3 years. We can still capture some more market in the next 2-3 years.

Jasbir Singh: So basically, in the last 15 years we have seen a lot of competitive landscape getting changed and we have I would say that safely navigated out of all the changes in the landscape whenever it happened. So newer companies will definitely continue to try to come then become a competitor. There are companies which are trying, there are companies which has tried, and then left out, but if we as a company and management are more focused in giving our customers, I would say a unique solutions a very comprehensive integrated solutions near to their launch and completely diversified one stop solution for them in terms of complete finish goods range and a complete component range, so that becomes and plus with a very strong R&D base. So, this is the uniqueness which Amber has created and we will keep on strengthening our uniqueness. But yes, definitely we welcome what the arrivals in the market, so whenever they come definitely, we will try to navigate out of it. But as far as now is concerned I would say that competitive landscape yes there are companies but the scale at which the companies are coming at very, very small levels at thet moment.

Gopal Nawandhar: Second thing between the IDU and ODU which one is easier to in house or say in terms of capital intensity or technology or say for example if any brand one to make it in-house whether he will prefer IDU or ODU or anything if you can get, give some sense on that?

Jasbir Singh: Well it depends on what budgets brand or may be any company wants to start with so if they are coming with the large budget in hand definitely, they can start ODU and bring both together and on the I would say complexity of the product point of view we would say that IDU is little bit more complex as compared to ODU.

Gopal Nawandhar: Lastly on this import substitution which we are seeing or because of changes in the norms. So, like just to get our numbers right the last year if I am not wrong Havells facility was not up and running and there may be some larger imports for them also on the ODU side and it since their plans are ready now. So that number would have been reduced significantly or no?

Jasbir Singh: Havells actually was earlier buying from LEEL which is unfortunately gone to NCLT so that has shifted in-house for them.

Gopal Nawandhar: Okay so it is not an import substitute?

Jasbir Singh: Yes, I mean, well I would not like to comment on behalf of my customer. So, I do not have the numbers in hand.

Gopal Nawandhar: Thanks.

Moderator Thank you. Ladies and Gentlemen due to time constraints we will be able to take one last question. We take the question from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: On a loaded basis what are the unique advantages we provide to our customers apart from let us say costs in the attendant efficiency. What are the other unique advantages that we provide, so that we become an inevitable for them over a period of time?

Jasbir Singh So Bharat Ji basically the unique comprehensive and integrated solutions which we bring on the table next door to our client having 15 plants in India, both for finished goods and components with a very strong R&D. That is what is the unique proposition of Amber apart from cost. So, we have the widest range of products available in the complete room air conditioner range starting from 0.75 tonne to 2 tonne in all categories, in all star categories while one star, two-star, three start, and four-star, five-star. Even in matter ACs also and then on the component side, we become one stop supplier. They do not need to have to deal with 10 suppliers as Amber can take care of the complete requirement of components, large critical components and supply just in time to them as and when needed.

Bharat Shah: And from a return on capital employees perspective, would they find it more efficient to source it from you or it has given for the small scale I understand the capital efficiency may not be so very much in evidence, but for the larger customer, the written-on capital employed would be superior by outsourcing from you or by manufacturing himself?

Jasbir Singh: Yes, because when they outsource from us certainly, they become light weight and their ROC is improved. So, it is ROC accretive proposition for them to outsource, but it again depends from customers management and Board of Directors to decide whether to insource or outsource, so our strategy has been whether they want to insource or outsource. Amber should be able to service in both the strategies.

Bharat Shah: Thank you sir.

Moderator: Thank you. Ladies and Gentlemen that was the last question. I will now hand the conference over to Mr. Jasbir Singh for closing comments.

Jasbir Singh: So, with the growth opportunities on the domestic and export front along with government support, we believe we are well positioned to capitalize on this opportunity. Thank you everyone for joining us. I hope we have been able to answer all your queries. In case you require any further details, you may please contact us, or our Investor Relation Advisors SGA - Strategic Growth Advisors. Thank you very much and have a good day ahead.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Amber Enterprises India Limited we conclude this conference. Thank you for joining us and you may now disconnect your lines.