"Amber Enterprises India Limited
Q3 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to Amber Enterprises India Limited Q3 FY2020 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, 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 Mr. Jasbir Singh, Chairman and Chief Executive Officer of Amber Enterprises India Limited. Thank you and over to you Sir!

Jasbir Singh: Good afternoon everyone and a warm welcome to our Q3 and 9 months FY2020 earnings conference call. Today I am joined by Mr. Daljit Singh, Managing Director, Mr. Sudhir Goyal, CFO and Strategic Growth Advisors, our Investor Relation Advisors.

We have uploaded our updated result presentation on the exchanges, and I hope everybody had an opportunity to go through the same.

Let me take you through business updates followed by operational and financial highlights for Q3 and 9 months FY2020, post which we will open the floor for Q&A for the participants.

Room AC industry continues to perform well, despite slowdown in overall economy. We see decent growth potential in the room AC industry due to lower penetration of the product, high aspiration for desire of comfort living, growing per capita income and easy financing options available in the market, which enhances the purchasing power to buy the product and lastly the shortening of the replacement cycle which will aid the industry growth. Deeper penetration of omni channel and e-commerce players has also increased the market reach of the products even in rural India.

As per industry estimates, e-commerce sales now contribute nearly about 12% of the overall sales volumes. As per our estimates, industry grew by 18% for the first 9 months of the financial year and Amber outperformed the industry by growing 75% in terms of volumes for the 9 months FY2020. Our performance is largely due to

- Industry growth,

- Increasing share of outsourcing market and demand for product procurement locally,

- Deeper penetration in the existing customers for supply of components and multiple SKUs and

- Continuous acquisition of New Customers.

We have also witnessed that the delta of seasonality curve is reducing over the years and the demand for the product is now increasing even in the non-seasonal period, giving us the leverage to phase out our production across the year. We are also seeking multiple opportunities in the export markets and we have also started supply of components to various export markets like Sri Lanka, Bangladesh, Nigeria and US. We are optimistic that export can be a huge potential market going forward on a long-term basis since the world is moving towards the China + 1 strategy. We have already started the talks with various OEMs for export opportunities and envisage good potential going forward.

We have been able to maintain our growth momentum and clocked volume growth of 75% as compared to 9M FY19. Our Room AC volumes for the quarter stood at 5.72 lakhs unit as compared to 4.23 lakhs in Q3 FY19. Room AC volumes for 9M FY20 stood at 20.24 lakhs units as compared to 11.54 lakhs in 9M FY19 a growth of 75%. As highlighted earlier, we endeavor to grow at a higher pace than the industry.

I would also like to highlight that not only our room AC division but our components and mobile application business division, which includes business operations of Sidwal are growing at a healthy pace and our penetration level with customers is increasing.

Our room AC revenue grew by 72% and stood at Rs.1,596 Crores in 9M FY20 as compared to Rs.931 Crores in 9M FY19.

Our revenues from components and mobile application business including revenue from Sidwal grew by 68% clocking a revenue of 1,052 Crores in 9M FY20 as compared to 625 Crores in 9M FY19.

As far as the subsidiaries are concerned, Sidwal is on growth trajectory and 9M FY20 revenues of Sidwal stood at 176 Crores and EBITDA stood at about 39 Crores with an EBITDA margin of 22% with healthy order book in hand and increasing metros and air conditioned coaches being manufactured, we are confident on the growth outlook for Sidwal going forward. We have realigned and streamlined the operations of Sidwal as per

Amber's standard and see operational efficiencies flowing in. Better control over inventory management, prudent collection followups and scale of buying leverage due to Amber's purchasing power will further aid to the operations of Sidwal.

Revenues for PICL stood at Rs.128 Crores for 9M FY20 a growth of 48%. Increased demand for locally manufactured components and product basket addition has increased the share of business amongst customers. EBITDA for PICL stood at Rs.8 Crores with EBITDA margins of 6.6%. PAT for PICL for 9M FY20 stood at Rs.1.7 Crores.

Our subsidiaries IL Jin and Ever are also doing well. The customers, which are being added recently, will have partial impact this year and full year impact next year. We foresee revenues and margin uptick in these subsidiaries as well.

Revenue for IL Jin stood at Rs.232 Crores in 9M FY20 and in Ever revenue stood at Rs.214 Crores in 9M FY20 with an EBITDA margin of 5.8% and 3.5% respectively for 9M FY20. With increasing efficiency and addition of new customers we envisage an increase of margins in Ever also going forward. As the market is moving rapidly towards Inverter AC's, we are confident of growing our revenue share from IL Jin and Ever going forward. I will now take you through the financial numbers on the standalone highlight first.

The total standalone revenue for Q3 FY20 stood at Rs.568 Crores up by 46% as against Rs.389 Crores for the corresponding quarter last year. Revenue for 9MFY20 stood at 1,957 Crores as compared to 1,217 Crores in 9M FY19 a growth of 61%. Revenue from room AC grew at 71% from 931 Crores to 1,596 Crores in 9M FY20. Our operating EBITDA post the impact of Ind-AS 116 for the quarter stood at Rs.25 Crores as compared to Rs.19 Crores in Q3 FY19, a growth of 31% on a YoY basis. EBITDA margins for Q3 FY20 stood at 4.4%. Operating EBITDA for 9M FY20 stood at Rs.137 Crores as compared to Rs. 91 Crores in 9M FY19 a growth of 52%. Operating EBITDA margin stood at 7% for 9M FY20. Standalone PAT for 9M FY20 stood at Rs.65 Crores as compared to Rs.31 Crores for 9M FY19 a growth of 109% Y-o-Y basis. PAT margins for 9M FY20 stood at 3.3% as compared to 2.5% for 9M FY19 an increase of 76 bps.

Our net debt as on December 31, 2019 for standalone entity stands at Rs. 259 Crores as compared to Rs. 228 Crores on September 30, 2019. Our working capital days are at 56 days from 66 days in corresponding period last year, so there is a positive jump here.

Moving on to the consolidated results, our revenue for Q3 FY20 grew by 52% from Rs.518 Crores to Rs.788 Crores, growth from subsidiaries has been significantly up as compared to last year with better margins. 9M FY20 revenue stood at Rs.2,648 Crores as compared to Rs.1,556 Crores in 9M FY19 a growth of 70%.

Revenue breakup from the subsidiaries before the intercompany adjustments for 9M FY20 stands as below.

PICL contributed Rs.128 Crores with EBITDA margins of 6.6%

IL JIN contributed Rs. 232 Crores with EBITDA margins of 5.8%

Ever contributed Rs.214 Crores with EBITDA margins of 3.4%

Sidwal contributed Rs.176 Crores with EBITDA margins of 22%

Operating EBITDA for Q3 FY20 on consolidated basis at Rs.52 Crores as compared to Rs.26 Crores in Q3 FY19 a growth of 103%. EBITDA margin stood at 6.7% for Q3 FY20 as compared to 5% in Q3 FY19 an increase of 167 bps Y-o-Y basis. Operating EBITDA for 9M FY20 stood at 207 Crores as compared to 105 Crores in 9M FY19 a growth of 98%. Operating EBITDA margins for 9M FY20 increased by 110 bps on Y-o-Y basis to 7.8% with higher room AC volumes, standout performance in subsidiaries and operating leverage playing out, we were able to deliver higher margins. PAT for Q3 FY20 stood at Rs.25 Crores as compared to Rs.4 Crores in Q3 FY19. PAT for 9M FY20 stood at Rs.101 Crores as compared to Rs.28 Crores in 9M FY19, a growth of 263%. PAT margins for 9M FY20 stood at 3.8% giving an increase of 203 bps on Y-o-Y basis.

We have not taken the benefits of lower tax rate since we have accumulated MAT credit in our books for standalone entity Amber; however, lower tax benefits have been availed for the subsidiaries.

Our net debt on consolidated basis for December 31, 2019 stood at Rs.334 Crores, our ROCEs are in the improving trajectory and we further foresee an expansion in ROCE due to operating leverage playing out and better control over the working capital. ROCE for 9M FY20 stood 19.5%.

Our constant endeavor would be to increase penetration and increase our wallet share in the existing customers continuously add new customers and enhance our products with new technologies by focussing on R&D. With this I open the floor for discussion.

Moderator: Sure. Thank you very much. We will now begin with the question and answer session. The first question is from the line of Vihang Subramanian from Samsung Asset Management. Please go ahead.

Vihang Subramanian: Thanks for taking my question and congratulations on a good set of numbers. My first question is on the standalone PBT like excluding other income that has like declined significantly so just wanted your sense on why that has happened is it because we have added a lot of new customers as well in 4Q FY19 and standalone business so is there is a function of like mix changing between indoor and outdoor units or is it a function of higher input cost so just wanted your sense on that?

Jasbir Singh: No, the decrease of PBT is just a function of increase in interest cost because of acquisition of Sidwal and also for the remaining stake of Ever Electronics, so there was an outgo of almost Rs. 218 Crores for both these acquisitions and which has increased in the debt levels increasing our interest cost so that is the reason why PBT is looking depressed.

Vihang Subramanian: Is there any other component in the interest cost like LC changes or bill discounting or any other component is there in the interest cost?

Jasbir Singh: In the finance charges there are other components that are right.

Vihang Subramanian: Okay could you probably discuss what those components or any just one or two meaningful components?

Sudhir Goyal: The other components including finance charges are LC issuing charges, majorly are those and on consolidated basis it includes bank guarantee charges as well.

Vihang Subramanian: Second question is on the compressors that we import from China are they from the Hubei region where most of the electronics are manufactured?

Jasbir Singh: No, compressors are coming from various plants not only from China we get compressors from Korea as well as China and Highly from India also.

Vihang Subramanian: What kind of inventory days do you carry for these compressors like do you see any risk basically it is a supply chain in case say the corona virus gets extended and if supply shuts down that side or something?

Jasbir Singh: So, the suppliers' factories were supposed to open on 27th January, which have got extended to 10th February now.

Vihang Subramanian: Correct.

Jasbir Singh: Some of them are opening on 8th February and some of them are opening on 10th February. We are covered for that particular extension, but however in case this gets further extended, Then we may also see some impact

Vihang Subramanian: Sir my last question, your component business has grown really well and the subsidiaries have grown very well, so is it because of new customers which you have added or is it like you are witnessing some increased traction towards imports substitution within components and just to add to this if you could just also clarify how much import substitution is left within components which you can potentially tap?

Jasbir Singh: See it is a mix of all the 3, largely in the component sector large substitution is yet to happen because all these components like electronic PCB boards, heat exchangers as well as the motors, the final products performance is dependent on the functionality of these component. Also, no company will give us approval without conducting a proper reliability test, so there is an addition of 4 customers in IL Jin, which has got to increase for this. In motors also, we have increased the wallet share within our existing customers like we have increased wallet share with Daikin and with Hitachi with Blue Star. On the Sidwal side there is a lot of traction on the new air condition coaches being built by Indian Railways where we have a strong order book and also on the Metro side there are new orders, new customers have been added like CRRC China has been added and BEML has been added recently, so it is a mix of both. Import substitution is not impacting to large extent and is still to come and we foresee that import substitution will start happening from next financial year onwards from FY21, FY22 onwards and for the other cases increase in wallet share as well as increase in customer has lead through this growth.

Vihang Subramanian: Thank you so much Sir. That is, it from my side.

Moderator: Thank you. The next question is from the line of Ankur Sharma from HDFC life. Please go ahead.

Ankur Sharma: Just going back to the previous caller’s question on the margins at the standalone level and even when I look at the gross margins or at the EBITDA margins we have seen that over the last two quarters there has been some decline and at the gross margin level over the last two to three quarters now and I believe what was told to us was the higher mix of IDU is also something, which has kind of impacted the margins, so how do you see the margins on full year basis, do you see margins kind of going back to the FY19 levels or do you think this decline could sustain?

Jasbir Singh: Actually, it is very difficult to predict how it will go further, because we are solution provider and it is totally up to customers to pick and choose what kind of product mix and what kind of category of product mix they want to go on for, so one is the margin in the percentage terms, there is a change in margins, which is primarily because of forex also. If you are comparing with last year margins, the dollar price was about 69 whereas now the average costing is coming to 71, so margins will change in the RMC charges, the raw material cost in terms of percentage will change, and then of course the product mix keeps on changing it is very difficult to see, but yes on a consolidated basis if we want to see margins will be on the upside trends, and it will also depend on the commodity prices moving forward because we do not know in case for example we are selling Rs.100, 15% is our gross margin. However, 100 can become 105 because of currency or commodity, but 15 remains 15. It can go either way, it can come to 95 also then 15 remain 15, so percentages will keep on changing but what we focus on is the absolute growth in the EBITDA terms as well as in the PAT terms.

Ankur Sharma: You gave the numbers for the subsidiaries for the 9 months, could you break that out for Q3 also for the four subsidiaries sales and EBITDA?

Jasbir Singh: Yes, so in Sidwal we have done in Q3 revenue of Rs. 68 Crores EBITDA is 18 Crores in Sidwal and PICL we have done a turnover of 43 Crores with EBITDA of almost 3 Crores. In Ever Electronics we have done 58 Crores with EBITDA of 1.8 crs and in IL Jin Electronics we have done 66 Crores with EBITDA of 4.28 Crores.

Ankur Sharma: One was on the whole China sourcing, which could kind of get affected because of this outbreak, so apart from compressors what else do we really import from China?

Jasbir Singh: We import lot of products. We import cross flow fans, we import valves, we import electronic PCB boards, we import copper, we import aluminium, and there is lot of products, which comes from China. There are smaller components also which comes from China today, but we have different and alternate sources like copper we have a source from Malaysia, which is not affected so our supplies are intact on that, but yes as we are covered till March, almost mid March in case this gets extended then definitely as I told earlier we will be impacted.

Ankur Sharma: I got it okay. Thank you so much Sir.

Moderator: Thank you very much. We move to the next question. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: In 9 months as well as third quarter of this year it appears that component revenue**s** for the standalone entity have grown at a pace lower than the overall room AC revenues is it that our customers are asking for a finished product solution as opposed to components and that is also one of the reasons why margins are trending down?

Jasbir Singh: Actually, this is not in our hand as I explained you earlier Aditya. It totally depends on customer to customer. What matters for us is our wallet share within the customer. This is flexibility which Amber gives to its customers for switching their requirements with us on a very short notice, but yes if you see the components on absolute basis have grown pretty well and you are right that there was a big jump in room AC market for volumes basically because of the new customers which were added, but there is adequate kind of a growth on the component business also. When we got listed two years back exactly in 2018 and at that time our revenue mix of component and room AC contribution was almost about 74% and 26%, which has gone to 60: 40 now so that is our endeavor, moving forward in 3 to 4 years' time on a long term basis we would like to have this product mix to 50: 50.

Aditya Bhartia: Sure Sir and if I look at volume growth we have had 35% volume growth for third quarter, 75% volume growth for 9 months, but if I look at the overall EBITDA growth for this standalone entity only for the time being and it has been relatively slow 22% for third quarter and 60% for 9 months so what could have contributed to that Sir and related question that other expenses in third quarter appeared to have jumped quite sharply, is there anything that we should be aware about?

Jasbir Singh: Are you comparing Q3 versus Q3?

Aditya Bhartia: Sir Q3 versus Q3 in terms of volumes we had 35% jump, in terms of EBITDA there is 22% jump, 9 months versus 9 months there is a 76% jump in volume.

Jasbir Singh: For Standalone Operating EBITDA has moved from 19 Crores to 25 Crores so there is a jump of almost about 31%.

Aditya Bhartia: Okay and other expenses there appear to be a fairly sharp jump over there Sir?

Jasbir Singh: Yes, because other expenses there was expansion in Jhajjar plant, one is of course it is pertaining to the volume increase and value increase of the revenue and second is the expansion of Jhajjar plant has not reached to the optimum level whereas the expenses have come up, so that is the reason why slight increase in other expenses has been shown.

Aditya Bhartia: My last question is on procurement in IDUs in India what percentage of IDUs may still be getting imported currently and where did this number stand some three or four years back?

Jasbir Singh: As per our estimate, this number is right now in tune of about 20% to 25% of IDUs are still being imported, this number used to be about 40% earlier.

Aditya Bhartia: And remaining 75% that are getting manufactured in India is it fair to assume that a fairly large chunk almost 50% would be getting manufactured by Amber?

Jasbir Singh: No, that will be very wrong statement to make here because yes we do, we are one of the major suppliers of IDUs, but customers like LG who has their own factories they do not outsource, they manufacture IDU in house, but we are supplying components for IDU to those factories, like Panasonic also have a plant in Jhajjar where couple of models they are manufacturing themselves and some IDU models are done by us, so for the models done by them we are supplying them injection molding component and another component.

Aditya Bhartia: Understood Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Nirav Vasa from Anand Rathi. Please go ahead.

Nirav Vasa: Can you please help me with the order backlog and order inflow that was in Sidwal?

Jasbir Singh: So Sidwal right now we have order outlook of almost about 600 Crores, but order in hand right now as we speak as of today we have close to about 420 odd Crores order book in hand. There are certain tenders, which are getting opened in next 10 days time and hopefully we will be adding some more order book as we move forward in next 10 days time.

Nirav Vasa: Got your point Sir. Sir my other question is pertaining to our air conditioning business**.** In the FY2019 annual report we had stated that we are working on solar powered AC, so any comment on that, can we expect some soft launch of that in the forthcoming season, how is the rapport building up with OEMs in that regard?

Jasbir Singh: So, we have already prepared the model and it is under testing right now. This model are being showcased to the industry, but because of the high cost involved I think there is a very slight uptick on that side because the it is really difficult to have a solar installation in window case because of the space paucity, but otherwise on the split side the outdoors, which can be fitted on the ground level or in the open they can have that kind of a solution, but the cost goes up, so we are talking to, but the product is ready right now and it is being offered to customers.

Nirav Vasa: So, are the OEMs talking of business after launch of that in the forthcoming season even though I understand every time the new product is launched economies of scale are not visible in the first go itself, so how is the response coming from OEMs, are they talking of launching it?

Jasbir Singh: We see a slowed response on that side because of the high cost involved right now. What we see a good response is in the IOT based solution, which Amber is offering with a layer of artificial intelligence embedded there is a lot of traction in that.

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

Naval Seth: Thanks a lot for the opportunity Sir. I have two questions. One if you can give Sidwal numbers for first half because if 9 months is 176 crs my implied numbers comes 82 crs for 3Q while you stated 68 crs?

Jasbir Singh: Its 107 Crores for H1FY20.

Naval Seth: Understood. Thank you.

Jasbir Singh: 43 Crores was first quarter and for 63.32 is Q2.

Naval Seth: Secondly on sir IDU as a product mix is bit getting adverse in last 3 quarters because of increased volume from IDUs now by when you expect because now we would be reaching at a certain scale for IDUs as well we were the late entrant in IDUs as compared to ODU so when you expect margins to converge and this skewness should reduce?

Jasbir Singh: Our endeavor is to increase the margins by offering more better product mix, but then it depends on which model is being sold and which models are getting substituted from China because that is the target audience in IDUs where the margins from China still continues at a decent competition from there, so it will vary from time to time. It can go up. We cannot give a kind of timeline here that when it will come up. Right now, we have touched decent volumes but still the built in threshold volume is yet to come so I think in the next two years time once the volume crosses about 2 million mark that is the time when we can see a good margin traction positive note on the IDUs front coming in.

Naval Seth: So what is the gap between if not the exact margin between IDUs and ODU but what is the gap in percentage terms both the margins?

Jasbir Singh: It depends in the IDU also we have different margins in different tonnages so if 1 ton margin are separate and 1.5 is separate and 2 ton is separate, but if I have to compare apple to apple 1 ton ODU versus 1 ton IDUs there will difference of about 1% or 1.5%.

Naval Seth: Okay which you think will get converged once you cross 2 million units mark.

Jasbir Singh: That is right.

Naval Seth: Thanks a lot, and all the best Sir.

Moderator: Thank you very much. The next question is from the line of Swati Matha from Comgest Singapore. Please go ahead.

Swati Matha: Just Sir first can you give us an update on your capacity utilization numbers?

Jasbir Singh: Sure Swati., there are two set of capacities we have one is for room AC and second is for components. Components we are standing as we see today we will be at around 65% to 70% range depending on various components and in room ACs we actually calculate capacities not on yearly terms because that is not the right way to look at our company we look at it in the seasonal peak season part. On the peak season, in the assembly lines of room ACs we will be touching about 85% to 95% and on the sub shop room AC we are somewhere about 75% to 80%.

Swati Matha: Sir what does that mean for capex going forward?

Jasbir Singh: There is no large requirement of a capex right now as we move froward because whenever we setup a Greenfield facility we do not need large 100 acres land as compared to brands. We setup very small factories and our capex in the greenfield facilities goes as high as to about 100 Crores in the new facilities, but there is no greenfield facility coming up as of now, so we will be talking about a maintenance capex and R&D and some capacity expansion at the tools and dyes level as well as in the sub shop levels.

Swati Matha: For the 9 months can you give me the split between AC components and non-AC components?

Jasbir Singh: Out of 40% on the other businesses almost close to about 7-8% is mobile application then remaining 32% is almost 50:50.

Swati Matha: In the non-AC component do you serve customers who are not your customers on the AC front?

Jasbir Singh: Swati we have two sets of customers. One customer is the consumer durable appliance companies like LG, Samsung, Panasonic, Godrej, Whirlpool who are having AC one of their products they sell refrigerator, washing machines, microwave and another product so in the non-AC components, our target audience is other than AC consumer durables component like case liner for refrigerators, extruded sheets for refrigerators, electronic PCBs for refrigerators, some plastic mouldings for refrigerators and washing machine tub assemblies, electronic for tub assemblies, motor for this and then in microwave cavities and water purifier stainless steel tanks, so there is lot of things we do, so this is the non-AC components we have.

Moderator: Thank you. The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Again, coming on to the same question so in terms of capacity expansion or capacity utilization currently we have been growing at far healthy pace so going forward what could drive your future growth with no Greenfield expansions coming up?

Jasbir Singh: You see companies who are planning to put up factories in South India, which is right now on a slow burner and some of the companies have put it on hold, we will tag along with them. Whenever we put factories we ensure that there is a customer cluster in that region and with the existing setup we have, in the north India and the western part of India we have ample space with us, but yes the component business growth is coming up with the new components opportunities, which we have recently got and we are entering into new components, which were not being manufactured till now by us in the existing customers and also in the AC front we are launching our commercial AC and adaptable new range by April with our existing customers so that is where the growth is going to come and of course the industry growth is growing plus addition of new customers is also ongoing in room AC as well as in components.

Manoj Gori: Yes, so in this case does our current capacity allow us to target such high growth potential that we see in the market today?

Jasbir Singh: We are endeavoring, we have been endeavoring from last almost a decade to outnumber industry growth and that is what our endeavor is to on the continuous basis and we are hopeful to achieve that in coming years also.

Manoj Gori: I completely agree, when I referred to in terms of your capacity in terms of production capacity, so whether that will support us strong growth numbers looking at it, because we are not going for any aggressive expansion plans?

Jasbir Singh: Yes, it will support because as I told you, components we have capacities with us and in components you do not need large capex to put up with. If we have to put up additional components line there will be additional capex of about 15-20 Crores, depending on work what components we want to grow, so in terms of capex you can do in the existing factories also.

Manoj Gori: Right Sir. Sir that was very helpful. Thanks a lot, and wish you all the best.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: First clarification on this 20 lakh unit when you mention, is it IDU plus ODU, so it is one AC or IDU or ODU are counted separately in this?

Jasbir Singh: No, we have always maintained it. In units' terms since beginning so these are units so IDU, ODU, window ACs are accounted separately.

Pritesh Chheda: What will be your market share in the 60 lakhs Indian AC industry now, so what will be your market share for the AC supply?

Jasbir Singh: When we got listed we were at 19% and now we are about 21%.

Pritesh Chheda: If you would include components along with it then what will be our market share?

Jasbir Singh: So, components market share is very hard to predict on the overall level, but what we can tell you is that if Rs.100 is a bill of material out of which 30 goes to compressors, remaining 70 we are present in almost about 60% of the bill of material.

Pritesh Chheda: I will take this question separately. On the volume growth side Sir, we ended 9 months is about 75% in room air conditioner what it should be for 2020 and what it should be for 2021 and in 2021 do you have scope for market share gain?

Jasbir Singh: Well I mean on one side outsourcing market is getting increased so definitely there is a possibility of increasing market share. If we outnumber markets so we are not giving any guidance, the only guidance we have been maintaining to give is that we will outnumber the market so we will try to do that if we are successful in outnumbering the market our market share gradually grows.

Pritesh Chheda: I think you gave a comment on tax rate, what will be your tax rate for 2020?

Jasbir Singh: So, we have already mentioned in the call that in Amber standalone business, we still have MAT credit, so we are opting for the old regime of taxation, but in subsidiaries we have come to the new tax regime.

Pritesh Chheda: When I look at your presentation there is tax rate of on consolidated for 9 months the tax rate is some 16%-17%, we are actually below the MAT rate, so is that number or 25% that is the number actually I got confused?

Sudhir Goyal: See as sir has said our standalone Amber tax rate is around 35% and in subsidiaries it is around 25%. Why the tax rate is coming low in 9 months consolidated balance sheet is because there is a deferred tax liability appearing in the books, which are at 35% and since deferred tax liability is being calculated on the future tax rates and in future will be opting for new tax rates so there is a delta of that which is there in the tax amount, negative tax amount is there.

Pritesh Chheda: Next year you will be at a 25% number?

Sudhir Goyal: Maximum next to next year. We have analyzed the same that which tax rate is beneficial for the company and then we will decide. Next year is at the end of year we will be able to take a call whether new tax regime is the better option or the old one, but next to next year definitely we will be opting for the new tax regime.

Pritesh Chheda: Thank you Sir.

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

Chinmay Gandre: Sir in terms of the margins of subsidiaries they are quite healthy, so can you share some light on that like Sidwal I can see almost 26%, 27% kind of EBITDA margins so anything on that?

Jasbir Singh: Yes, on a quarter basis it is 26%, on a 9 months basis it is 22%, but this reflects the purchase leverage and certain efficiencies, which Amber has put in after coming in and moving forward we should be in the same range of 21% - 22% in Sidwal.

Chinmay Gandre: Also, the margins or IL Jin and PICL are also quite healthy in terms of around 6.5%, which is also at the upper end of the margin variations that has happened over the quarters, so anything on that?

Jasbir Singh: So, in IL Jin as we had new customers, our margins are going to grow for this. We have travelled the journey from 3% to almost 5.8% right now and we are endeavoring to take it to 6.5% by next financial year. In Ever also we are trying to get new customers and in PICL yes, their exports have kicked up well. In last year we exported only 62,000 motors, we have already done 1 lakh plus motors, which is coming at a good margin and we are targeting new geographies for exports in PICL so we should be seeing a positivity in margins there as well going forward.

Chinmay Gandre: So, IL Jin next year we are targeting around 6.5% margins?

Jasbir Singh: In the range of 6-6.5%.

Chinmay Gandre: 6-6.5% and PICL you are mentioning the margin should be on the upward trajectory.

Jasbir Singh: We should be seeing at least 100 bps increase in PICL margins going forward.

Chinmay Gandre: Lastly if I understand in terms of the margins in the standalone especially on the gross margin front, so it is largely reflection of the mix, which was more towards the IDU is it fair understanding?

Jasbir Singh: It is a fair understanding yes on a large basis, but it depends on if we sell few of components which are at a greater margin in case those components hold more, the margins can get increase also.

Chinmay Gandre: Directionally in terms of standalone do you guide number?

Jasbir Singh: We see at least 0.5% increase in margins on EBITDA basis going forward.

Chinmay Gandre: Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Aditya Sharma from Motilal Oswal AMC. Please go ahead.

Aditya Sharma: I have one question, so many of these companies are moving to inhouse manufacturing so I just want to understand the cost differential between importing and inhouse manufacturing?

Jasbir Singh: Well we do not know their own cost and none of our customers share their cost of manufacturing with us, but the business model which Amber has built is we have mitigated the risk whether company insources or outsources if we have a deeper wallet share with them it should not affect us and the market share exchanges between the brands should not affect us, so the largest customer, which Amber today has is LG, which does not outsource air conditioners so we are selling a good amount of components in all their verticals of businesses they have, but I think insources versus China on the brand basis we will not be able to comment on the costing front.

Aditya Sharma: One more thing, so I guess when everyone is investing heavily on inhouse manufacturing then your wallet share might reduce as the numbers of units you will be supplying will be less and the number of components will be supplying will be more, is that understanding correct?

Jasbir Singh: It all depends. Actually we have seen that companies they have already have their manufacturing facilities and still they are buying from us, some finished goods also and components also, so there is no fixed thumb rule, which industry follows, every brand has its own strategies and these are governed by board members or maybe CEO levels and we are integrated solution provider when we sit with the customer we talk about the buffet of products so as I told you I have given example of LG, which does not outsource but it is the largest customer we have. So definitely once when we hear a news that somebody is putting up a factory or their own plant we really get excited because their belief on the growth story of the industry is just in line to what we understand as far as the industry goes, that is why they are putting 500 odd Crores and then there is an opportunity of supplying both finished goods as well as semifinished goods and components to that factory.

Aditya Sharma: Sir will LG be the largest customers in finished goods as well?

Jasbir Singh: No, we do not supply finished goods to LG. they are the largest customer overall with us and we give only components to them.

Aditya Sharma: Got it Sir. Thank you.

Moderator: Thank you. The next question is from the line of Yogansh Jeswani from Maple Value Fund. Please go ahead.

Yogansh Jeswani: Sir we would like to understand what is the opportunity size for our products in the indoor AC and the outdoor AC market?

Jasbir Singh: On one side if you see the outsourcing concept has evolved from 16% about 6 years back to close to about 38% now and as per Frost & Sullivan report. There is likelihood that this number will touch to 52% by 2022 or 2023 so that is one growth opportunity, which we are looking at and then we are also launching new products like cassette air conditioners and commercial ACs plus ductable models, larger tonnages models are being launched by Amber, which we again see as a large opportunity going forward.

Yogansh Jeswani: As we can see in the market, the AC market itself is not really growing at a very fast rate, but we are increasing revenue more than like 25% CAGR how are we able to do that?

Jasbir Singh: We have been working on 3-4 strategies, one we keep on adding new customers, second, we try to increase wallet share within the existing customers for example our association starts by supplying 1 ton to a customer, next year our endeavor would be to supply 1.5 tonne and 2 tonne air conditioners also to them and then also some components also. Then there is import substitution which is happening, which is also helping us, so these are all 3-4 factors where we are working on.

Yogansh Jeswani: Right and are we confident that we will be able to maintain this growth rate going ahead for the next 3-4 years?

Jasbir Singh: We will not give any guidance here what we would like to guide is that we will outnumber the industry volumes. I think we will try to maintain that.

Yogansh Jeswani: Okay that is great Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Tejas Sheth from Nippon India MF. Please go ahead.

Tejas Sheth: One is that lock down date extends beyond 10th February is there any alternative plan which we are working on considering that we are at the peak of summer feeding market that is my first question, second when you meet lot of brand companies they say that because of oversupply in China because of that domestic slowdown there the AC imports pricing has been quite favorable vis-à-vis outsourcing in India. I would just like to understand how cheaper would that be or what kind of delta which they will be gaining over Amber's pricing?

Jasbir Singh: So, the first question to address if the timeline gets extended, we will definitely be impacted, but, Just on a short notice, alternatives can be made, some of the components will not be impacted because largely sourcing is from inside India only, but whereas the finished goods will be impacted. Our subsidiaries will not be impacted, but Amber's room AC business will be impacted. The other you ask the other question can you please repeat it?

Sudhir Goyal: Oversupply of AC.

Jasbir Singh: Yes, you are right. China keeps on twisting their strategies also as tariff barriers were increased, China increased their export incentives as well as they had appreciated their currency to adjust the increase of 10%, so China yes they have, extra inventories today which is largely because of the trade barriers but in the past also we have seen when Amber's growth story has been largely in the tariff barrier part when 10% barrier because 20% barrier has been imposed just this February, so this is a large voluminous product, maybe yes, I mean some companies can shift to China. They are not in all the models and it is a voluminous product, there is a new energy rating coming in next year. Again, there will be a problem for imports on that front and I believe Indian government is also looking this product very cautiously in case of any import surge is there, they will definitely act on that.

Tejas Sheth: Okay fine. Thank you very much.

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

Abhishek: Sir any expectation from the union budget tomorrow in terms of any increase in import due to anything?

Jasbir Singh: Well, I mean there has been media news which we have been hearing. Government has been taking lot of data and we have supplied lot of data to DIPP. I do not know what decision will come tomorrow. There is a chance of increase in custom duty but we are not looking at it very anxiously, so it will be positive if that happens.

Abhishek: If you can just help me with what is the import duty differential so if we were to manufacture an IDU, ODU in India versus import what will be the adjusted for the currency depreciation that we have seen now, what will be the cost differential now for an OEM?

Jasbir Singh: In window and outdoor unit, India still remains very competitive. There is a large delta of close to about Rs.800 to Rs.900. On some models it is to Rs.1500 also. In indoor units, with the change in the export incentives by China government they are almost at par with what India can procure or manufacture here, so it depends on strategy of customer whether they want to bring in and on a lead time of 90 days with just 400 pieces coming in one containers in different energy labeling norms getting change, it is very complex situation to import but yes on indoor we still have to work on the costing front.

Abhishek: In terms of the India business also are you seeing some amount of reduction or decline in the competitive intensity with some of the smaller players, where you are seeing that kind of phenomena also happening and that is also helping to increase market share in the overall outsourcing basket itself?

Jasbir Singh: Yes there has been a change in the landscape and the local competition like LEEL got into NCLT and their factories got close so definitely that changed the whole landscape, but yes the smaller players they do not have that large bandwidth of R&D capabilities as well as the capex, which is required and with Amber's 15 plants it becomes very unique company to offer solutions in different geographies in the different components sector, so that is improving, the competition level locally is reducing and improving our capabilities.

Abhishek: Thank you so much for answering my questions and all the best.

Moderator: Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: One is regarding the south plant that you had told you have been hitting. You had told that there is some deferment given the fact that Blue Star has setup, Voltas is also in the process, Daikin is also thinking about setting it up, we can go slightly ahead of the time and setup a facility there, we have sufficient number of customers now, that Samsung is also there so?

Jasbir Singh: Well we do not want to move to a new location where we keep on waiting for new opportunities. We put up a factory in just 5-6 month's time the Greenfield facility, we have done it in the past so we are observing and keeping a very strong watch on the moment as we see that the construction starts happening we will definitely move towards south.

Ravi Swaminathan: Got it Sir and if you could give the indoor, outdoor and window volume for this quarter it will be really helpful Sir?

Jasbir Singh: Well Ravi we would like to avoid that, in past we have seen that few of our customers tried to negotiate by taking our numbers with us so as a management we have decided not to disclose the number. We have given you the full volume number of 20 lakhs plus what we have given as compared to last year 11 lakhs.

Ravi Swaminathan: PAT margin of IL Jin, Ever and Sidwal this quarter how much?

Jasbir Singh: So, in Q3 in Sidwal the PAT was Rs.12.5 Crores. For IL Jin it is Rs. 1.76 crs. For Ever it is Rs. 23 lakhs and for PICL we are at Rs. 32 lakhs.

Ravi Swaminathan: Yes thanks.

Moderator: Thank you. The next question is from the line of Amber Singhania from AMSEC. Please go ahead.

Amar Singhania: Sir when I compare your standalone and consolidated revenue there is roughly around 59 Crores of intersegment sale, which is getting knocked off, sir just wanted to understand out of roughly 2,000 Crores of revenue in standalone we do not procure component from our subsidiaries beyond Rs. 60 Crores as such or where exactly is this?

Jasbir Singh: Like Sidwal does not supply anything to Amber and it is a different mobile application space then we do procure. Amber procures motors from PICL to a tune of almost about close to 22% of requirements and remaining we also import and IL Jin and Ever it is under development right now. It will take another 6 more months for Amber to give approval on the reliability cycle of the new inverter PCB boards developed by R&D of IL Jin and then it will start moving forward.

Amar Singhania: Sir right now like it is just roughly 3% of the revenue which we procure inhouse, once these approvals are in place where this number could go up to?

Jasbir Singh: It will not substantially add up. I think it can go to maximum 10% or so of the whole consolidated basis.

Amar Singhania: Are you planning to do any backward integration for the AC components other than these 4 subsidiaries, which we have because there is still a huge scope of backward integration further on?

Jasbir Singh: We are planning to get into further components, few of our customers have asked us to start the feasibility report of the wiring harness business as well as cross flow fans and another injection molding business which we are right now looking at.

Amar Singhania: Lastly if you can give some guidance about the capex for this year and next year?

Jasbir Singh: So, this year capex on a consolidated basis including our subsidiaries, all subsidiaries we have already done a capex of 96 Crores, which involve about 35 Crores of maintenance capex and close to about 20 odd Crores of R&D and remaining are other capex in the subsidiaries as well as in Amber. We look towards maintaining a capex of about 120 odd Crores in this financial year.

Amar Singhania: Okay similar capex will be there in next year as well?

Jasbir Singh: No next year it will be less than this because we do not have anything. In case we do not put up facility in south then definitely it will be much less than the capex.

Amar Singhania: Thank you Sir.

Moderator: Thank you. The next question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.

Shrinidhi Karlekar: Sir I just want to better understand your inverter controller capabilities so we have done some arrangement with Infineon and Bisquare , I just want to understand what it is really different with two different companies and the next one is Sir how big is this opportunity if you go by something like 2.5 million annual inventor ACs are ballpark sold in India how much of the invertor controller could be manufactured by brand or some other vendors in India or how much is procured outside of India and if you can help with the big players, which are in this industry that would be really helpful?

Jasbir Singh: So, on our association with Bisquare and Infineon, Infineon is actually a chip manufacturer and Bisquare is a design house. With Bisquare, we have already launched the inverter PCB board with few of our customers and the Infineon chip card is under development which will be launched very soon for further customers. The whole opportunity is quite big. This almost 55% industry today inverter air conditioners and the inverter PCB board are the larger component after compressor in the whole bill of material scheme of things, this cost you around 3,200 to 3,500 varying from tonnages and if the industry further graduates. Right now, large inverter PCB board is being imported and there are only two more suppliers in the country, which are supplying these boards, one is Diamond which is doing, it is a Japanese company to which certain boards are being supplied by Dixon also and IL Jin is one of the largest, which is already supplying to LG and other players right now. So, there is lot of opportunities because as inverter PCB gets to a positive penetration level, the requirements of this nobody wants to import, everybody is looking forward for a local solution and IL Jin is the first company, which is launching their own product R&D done in Made in India product very soon.

Shrinidhi Karlekar: That would be ODM right. OEM is already there, is that my understanding?

Jasbir Singh: That is right.

Shrinidhi Karlekar: Is it fair to say that like for other components such as wiring harness and cross flow fan, are you getting similar interest from your existing clients to improve your capabilities in this critical component or it is more of on your own that you are trying first?

Jasbir Singh: No, largely we have been getting feedback from customers because Amber has always addressed their pain areas so these are some of the components where very small companies are involved, they want a larger organized sector to supply to them and that is where the opportunity is looking for Amber right now.

Moderator: Thank you. The next question is from the line of Pankaj Bobade from Axis Securities. Please go ahead.

Pankaj Bobade: Thank you for taking my question and congrats on reporting excellent set of numbers. You talked about import substitution opportunity starting from FY2020 and FY2022 onwards so just wanted to understand about the quantum or opportunity in maybe volume or value terms. Also, you mentioned that in the bill of materials we are supplying around 60% other than the compressor, any plan for getting into technology intensive components like compressors?

Jasbir Singh: No we do not plan to enter into compressor at the moment because the compressor we already have company called Highly, which has setup a plant here and another plant is being commissioned right now by GMCC, which will be commissioned in this calendar year and it will start production next year onwards, so breakeven point for a compressor plant is about 2 million and market size is quite small right now at 6.5 or 7 million to have those numbers with you and it is a capex intensive plant so rather than that we have already got into a more technology oriented businesses, which is inverter PCB board, which is a highly functional component and the whole energy conservation happens through PCB board that is what we have got into and that is what we are growing right now and we would like to actually bring in more brushless DC motors, more energy efficient motors along with a unique fan solutions for reduced CFM and noise levels in the industry and also our new range of heat exchanges we want to launch with better efficiencies on the cards.

Pankaj Bobade: Yes, regarding the import substitution opportunity what would be the volume or value?

Jasbir Singh: See there are two kind of import substitution opportunities, one is in the finished goods which we are already catering too and we are producing new models every year and as we are growing bigger our leverage of cost competitiveness is increasing and that is where big imported opportunities are there. Second import opportunities are in the component space like inverter PCB board is largely being imported, motors still about 70% motors are imported in India, 95% of washing machine motors are being imported in India that is where large substitution can happen, then other small components like slow fans and valves, these wiring harness, these are another part which are coming from China, where we have a large import substitution can happen.

Pankaj Bobade: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs. Please go ahead.

Rahul Ranade: Out of the 120 odd Crores of capex in FY2020 how much would be done in Sidwal?

Jasbir Singh: Sidwal will be close to about 5-6 Crores maximum.

Rahul Ranade: Where are we on the working capital days in Sidwal I believe we have kind of rationalized a lot on that so?

Jasbir Singh: We have travelled a journey from 180 days to 93days in H1, in Q3 we have further brought it down to 84 days.

Rahul Ranade: Alright Sir. Thank you.

Moderator: Thank you very much. Due to time constraint, we will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Jasbir Singh: Thank you everyone for joining us. I hope we have been able to answer all your queries. In case you further require any further details, you may please contact us or our Investor Relations Advisors, Strategic Growth Advisors SGA. Thank you.

Moderator: Thank you very much. On behalf of Amber Enterprises India Limited we conclude this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.