"Amber Enterprise India Limited
Q4 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Amber Enterprises India Limited Q4 FY2020 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on beliefs, opinions and expectation of the company as on date of this call. These statements are not 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 Mr. 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 are all keeping safe and healthy. On the call I have with me Mr. Daljit Singh, Managing Director, Mr. Sudhir Goyal, CFO 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.

Let me begin with the impact of COVID-19 pandemic on the economy on broader front first:

This is a very unusual and a very extraordinary time where no company, no government, no individual has ever seen a crisis of this magnitude and scale. The black swan event of COVID-19 has taken a huge toll on life, not just from medical point but also economically. The pandemic has paralyzed the economies compelling business to reevaluate their strategies. As far as our industry is concerned AC is a highly seasonal sale product with the March to May period in a calendar year accounting for approximately 35 to 40% of the sale. The industry did witness a slow down given the lockdown during the peak season, which also forced the brands to shut their manufacturing units. However, as we talk today almost all the consumer durable players have resumed partial or full operations.

We believe this is the category to be among the first one to see demand normalize over period of time. Now from a number point of view due to the lockdown situation in India, we were prohibited to manufacture the products for our customers towards the end of March, which continued till May 2020. In the start of May 2020, we partially resumed our operations which gradually increased over time after adhering to guidelines provided by the governing authorities.

I will now speak on what we are doing to navigate through these challenging times:

First during the lockdown, we have swiftly moved to work from home model. We also provided training to employees in multiple functions to enhance skills and improve productivity and extended our support to the workforce mentally and boosted their morale to fight this challenging time. Now after the ease in lockdown, we have restarted offices with limited workforce. While operating, we have ensured to follow all required measures to ensure safety and security of all our employees. As the lockdown has eased, our customers are meeting the pent-up demand from end customers. Since the lockdown was announced during end of March which also appears to be the peak season for us, the dealers had already stocked up inventory, which they are liquidating now. We are seeing signs of consumer demand revival, but yet it is early to comment on the overall demand scenario and how it will pan out. we have been able to meet our orders with sufficient raw materials in hand, also we do not foresee any impact on manufacturing operations on account of unavailability of raw materials going forward.

From a labor point of view, we are not facing any issues. Since 80% of the laborers are from nearby vicinity; however, we have curtailed the number of employees working at all the offices and manufacturing locations at a time in accordance with the guidelines issued by the governing authority. On the cost control measures, all the cost heads have been reviewed with the increased focus on improving productivity and rationalizing the costs, strict monitoring on the fixed cost has been implemented to improve operating efficiencies. As per our responsibility towards the nation, promoters have contributed Rs. 11 lakhs each to the Prime Minister's Relief Fund and our staff has contributed two day salary of April month 2020 as a support to fight this pandemic. Promoters will take 50% salary cuts for the next three months i.e. May, June and July and our staff has also contributed in terms of salary revisions to support the organization in this difficult time.

On the working capital side, our working capital days have improved from 54 days in FY2019 to 37 days in FY2020 due to improving collection efficiency, better inventory management and better trade terms with our suppliers. However, there may be impact on receivable cycle from customers going forward due to overall impact on liquidity position of the companies across the countries. Having said that we do not foresee any major risk of receivable given the high quality of customers and strong balance sheet of Amber to support operations. We are also in constant touch with our key vendors and working with them to mutually partner each other in such unprecedented times.

Now let me take you through the opportunities we foresee in coming years. One of the biggest points in this challenging environment is the acceleration of "**China plus one"** strategy. Many companies are showing the intent even strongly to reduce their dependency on China to develop an alternate and realizable source of supply. With humble pride, we like to say that Amber will be their preferred choice of vendor, few brands who have been importing from China have approached us and now talking actively. Another opportunity we see is that various initiatives are taken by government under "Vocal for Local" and being Self-Reliant to boost the local manufacturing. We believe under this initiative the component industry ecosystem will be created to support domestic manufacturing and reduced dependence on imports for components and finished goods. Third, even when we say this, our customers are optimistic on the future outlook of the industry growth and long-term potential. We have continued our investments in R&D for new product developments and better energy efficient products expanding our products portfolio in commercial air conditioning space to leverage and increase our wallets share in existing customers as well as acquire new customers. We expect demand revival since we believe that customers cannot hold the purchases for this product over longer period of time.

Now I will take you through the impact on COVID-19 on Amber in near term. We believe there will be impact in revenue and profitability for quarter one FY2021 as our operations were shut since end of March 2020 and were gradually started in May 2020. The demand of our air conditioners in the retail and e-com markets have also been disrupted on account of COVID-19 and therefore demand from our customers have been impacted as well. Considering the fact that the situation is exceptional and is changing dynamically, the company is not in position to gauge with certainty the future impact on its operations. However, the company is confident about adapting to changing business environment and respond suitably to fulfill the needs of its customer. Our strong business model spread across multiple customers and increased penetration in the HVAC industry is expected to withstand the weak demand outlook in short term.

I will now take you through the consolidated financial numbers. Our revenues for Q4 FY2020 grew by 10% from Rs.1196 Crores to Rs.1315 Crores. Growth from subsidiaries have been significantly up as compared to last year with better margins. FY2020 revenue stood at Rs.3963 Crores as compared to Rs.2752 Crores in FY2020, a growth of 44%. Our revenues from room air conditioners have increased by 39% and components and mobility applications business have increased 52% for FY2020. Components and mobile application business now contributes 39% of our overall revenues as compared to 37% of FY2019. Our volumes for Q4 FY2020 stood at 1 million units, FY2020 volumes were 30.28 lakhs as compared to 21.16 lakhs in FY2019, a growth of 43% Y-O-Y basis. We are happy to report that we have clogged in a volume of 3 million plus units for FY2020. Operating EBITDA for Q4 FY2020 stood at Rs.119 Crores as compared to Rs.108 Crores in Q4 FY2019 up by 10%. Operating EBITDA for FY2020 stood at Rs.326 Crores as compared to Rs.213 Crores in FY2019 up by 53%. Operating EBITDA margin for FY2020 stood at 8.2% an increase of 50 bps on Y-O-Y basis. PAT for the quarter stood at Rs.63 Crores. PAT for FY2020 stood at Rs.164 Crores as compared to Rs.95 Crores in FY2019 up by 73%. FY2020 PAT margins stood at 4.1% an increase of 70 bps as compared to last year. We have not taken benefits of lower tax rates since we have accumulated MAT credit in our books for standalone entity Amber and IL Jin however, lower tax benefits have been availed for the other subsidiaries. We have however restated the deferred tax liability as per the new revised tax rate, which has a positive impact on our Q4 and FY2020 PAT. Our net debt on consolidated basis on March 31, 2020 stood at Rs. 246 Crores. With prudent capital management policy, we have been able to bring down our working capital days from 54 days in FY2019 to 37 days in FY2020. Our return on capital employed are on an improving trajectory, ROCE for FY2020 stood at 18.5% as against 14.5% in FY2019. ROE for FY2020 stood at 15.1% as against 10% in FY2019.

Now coming to subsidiaries update, our mobility business segment has not been sharply impacted with COVID-19 pandemic, strong order book and due to the tender based business, we do not foresee any loss of revenue in this segment, might be there will be some spillover in the revenues. FY2020 revenues for Sidwal which were consolidated in Amber for 11 months as it got consolidated on May 2, 2020 stood at Rs.226 Crores and EBITDA stood at Rs.63 Crores, Q4 FY2020 revenue for Sidwal was 65 Crores. With healthy order book in hand an increasing metros and air conditioning coaches being manufactured we are confident on the growth outlook for Sidwal going forward. Revenues for PICL stood at Rs.185 Crores for FY2020 and Rs.57 Crores for Q4 FY2020. Increased demand for locally manufactured components, product basket addition and customer addition has increased the share of business among customers. EBITDA for PICL stood at Rs.11 Crores with EBITDA margins of 6%. Revenue for IL Jin stood at Rs.325 Crores in FY2020 and Ever revenue stood at Rs.297 Crores in FY2020 with an EBITDA margin of 5.6% and 3.4% respectively for FY2020. Q4 FY2020 revenue for IL Jin stood at 92 Crores and Ever stood at 83 Crores. With increasing efficiency and addition of new customers, we envisage an increase of margins in Ever 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. 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 focusing on R&D. With this I open the floor for discussion.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Hi, good morning Sir. Thanks for the detailed presentation, that was really useful. My first question is on the import substitution opportunity for IDU. Just want to understand how much has it already played out and what proportion of IDUs would currently getting imported?

Jasbir Singh: . I will take you little bit about a year back when 2019 budget was announced. Government increased the custom duty on IDUs from 10 to 20%. So partial shift happened because of that and now because of this COVID-19 situation, the remaining IDUs, we are likely seeing that a lot of customers have started talking again who still continued to import despite of custom duty increase. So that is one shift which we are envisaging that will come in near term from the import side. On the volume side, how many are getting imported, We do not have the exact breakup of how much IDUs are getting imported but on a value terms as per our estimates, 28% of air conditioners still continue to get imported. So, there has been lot of deliberations by government and especially after the Atmanirbhar scheme of being self-reliant India, there are a lot of meetings happening at a government level which we expect that there will be some policy interventions from government side to curb imports. But however right now it is only deliberations, which are happening, so it may take some time for coming into action but we are looking in to that. But given that now companies like us, we are gaining scale as economy of scales is coming. Our capability of being competitive in some models which we were not earlier is also increasing. So that we are expecting at least whatever is getting imported right now in IDUs in a rough manner if I would say at least about close to 2 million IDUs will be still, this is a very rough number, still need to get through research, but around in that range should be imported which can come to India.

Aditya Bhartia: Understood. Sir when you say 28% of AC are getting imported, this includes the value of component and compressors as well?

Jasbir Singh: No. Compressors and components are separate because this is exactly finished goods which are being imported. So, components like compressors, some models of motors, some inverter PCB broads, the copper, aluminium, cross flow fans and the valves, they are continuing to get imported.

Moderator: Thank you. The next question is from the line of Bhalchandra Shinde from Max Life Insurance. Please go ahead.

Bhalchandra Shinde: Sir I would like to know as per the channel check inventory levels have relatively been higher in Room AC segment, so how our production will get affected or how we see over next one year because now our base will be relatively also slightly higher than earlier. So how we see the growth prospects?

Jasbir Singh: So, you see as far as post pandemic COVID-19 situation is concerned, we are all living in realm of speculation in these days. There are various theories which we are listening about

V shape recovery, U shape recovery, or even likely swoosh type recovery, but my personal opinion is that this is one of the products which is kind of essentials though government has not declared it as essential, but it is kind of essential product now. You cannot stay without air conditioners even while working from home, you need air conditioners. Just in recent case when partial lockdown in the green zones were opened and air conditioners showrooms were allowed to be operated, we are seeing a very strong demand in the air conditioner segment. In April itself there are very good numbers which are coming in and in North India especially there have been some pockets where dealers have reported that their complete inventory has been sold off. So there are two types of inventories remaining when the lockdown was announced. First part is at the dealers end and second is at the company's end and third one is with companies like us. So we generally do not keep finished goods inventories more than of 24 hours. So on the finished good side, we do not have inventories. We have inventories in the raw material form of basic copper and aluminium and compressor side. Now with heat wave going on, I believe that the inventories of dealers should be liquidated in next 15 to 20 days' time and then partial liquidity of inventory lying in the warehouses will also start liquidating. So in such a dynamic state of economy today, it is very difficult to give you any number but my personal opinion is that maybe from like we are seeing some demand has started coming in our factories, we have started supplying on a small volume but it has started. So I think maybe in next four to five weeks, we should see that demand will start, the inventories will be liquidated to the levels at which they were used to be earlier and then the demand will start coming.

Bhalchandra Shinde: Okay. Great Sir and on the component side, how we see growth prospects because their again we are adding more and more customers. So probably we may be able to grow in a much faster phase because there will be a likely import substitution kind of scenario also happening?

Jasbir Singh: See this is the uniqueness of Amber's buffet of products offering. We have components and finished goods and within components we have not only one component, we have number of critical components with us. So in components space, we are very optimistic because post COVID-19 situation, due to China plus one strategy as well as Atmanirbhar scheme of government, there is lot of positive wave which has started for Make in India programs even for the domestic companies, which were earlier importing. So we foresee that not in the short term because these are reliability components if somebody has to shift its vendor base, they have to start the process of reliability, but in the medium term component manufacturing will be definitely a very big opportunity for Amber and I would like to highlight one more point that we have already started exporting our motors to USA and we have seen a lot of positive RFQs coming in and lot of demand is there for motors and PCBs and heat exchanges as well as for finished goods. So, the customers, which we were just talking from last two years, have now started actively responding to our communications and they are also willing to explore this opportunity during COVID-19 situation and China plus one strategy. So, in component space, yes definitely we are very optimistic.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.

Bhoomika Nair: Good morning Sir and congratulation for a good set of numbers in these challenging environments. Sir wanted to just delve a little deeper into this component ecosystem that you spoke about where there is still a lot of components being imported apart from compressors. So how easy or what kind of scale is required that can expand this ecosystem and my second question would be on the commercial refrigeration space that you spoke about when are we in entering into the space and how quickly can it ramp up?

Jasbir Singh: Sure, so Bhoomika on the component eco-system, Value-add in India is very little right now and that is what government wants to intervene with the correct policy measures, and force the industry or maybe provide a push to the industry so that the import starts coming down and manufacturing in India starts ramping up. I will just give you an example of automobile industry in 1999 or 2000, their value add in India was only 25%. But then gradually government and the buyers and sellers all put together, they moved hand in hand and today about 95% of automobile whether it is four wheeler or two wheelers is manufactured in India including the engines and the critical parts so that wave has started in our industry and Amber is very rightly placed industry because we already had critical components and experience in that and a strong R&D behind it. So, with the move of Make in India strategy, motors, inverter PCB broads, then heat exchangers and this other things like compressors and cross flow fans and valves, they will gradually start manufacturing in India. As far as your question goes that how easy it is for somebody to shift. Now these are reliability components where some functionality, the final product performance is dependent on the functionality of these components. So, companies who will shift their vendor base to India, they will definitely go through the reliability cycle, which in some cases it takes about six months and in cases of inverter PCB broads, it takes about a year time or maybe sometime more. So, once that is crossed, the milestone is crossed, then definitely the traction of production and supplies will start. This is about the component ecosystem. On the commercial refrigeration space we have developed our models of commercial air conditioners, not refrigeration actually into ductable range from 7.5 ton to 8.5 ton, 11 ton to 12.5 ton so those that range is ready because of COVID-19 situation, we were not able to start the production, but we are expecting to start the production of commercial air conditioners in small volumes in the month of June end or maybe first week of July.

Bhoomika Nair: And how large is this opportunity for us?

Jasbir Singh: See ductable air conditioners, this will be the first time that industry will be going for outsourcing model. Generally, this was manufactured inhouse by the brands. So now because they have tasted good results in outsourcing in room air conditioners because of asset light strategies and other positive things, so they are now. So, I think in first year, I do not see that this is a very big number which we can see, but on a long term basis, it is a very big opportunity for us. So today if I see of commercial air conditioner space in total value terms if actually AC industry is close to about 48,000 Crores industry, out of which room air condition is only 18,000 Crores industry. So remaining is the commercial piece, so we are now graduating with acquisition of Sidwal, we actually expanded our product portfolio in the mobility application and this part is missing which is the bigger part of the pie of AC, now we are gradually into this, so it is a big opportunity going forward.

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

Manoj Gori: Thanks for the opportunity. Sir couple of questions, if you look at subsidiary performances, the sales have increased significantly even on sequential basis, however gross margins and EBITDA margins had declined on sequential basis. Can you throw some light over there?

Jasbir Singh: See gross margins sales actually if you see I will take you through subsidiary to subsidiary wise. In Sidwal, there has been both increase in gross margins as well as EBITDA margins, PAT margins and the sales volume. In PICL, if you see there is a big jump revenue as well as the EBITDA percentages and also the gross margins. In IL Jin and Ever, yes you are right, the sales have not got increased because we gave away some low margin businesses and we changed our strategy for the high margin businesses with the right product mix in that. So, sales were not increased, but the EBITDA percentages are getting increased on year-on-year basis. When we acquired these companies two years back, the total consolidated EBITDA was only 14 Crores with the same sales which they are doing today but the EBITDA has now increased in the same sales close to about 11 Crores plus 16 Crores, so about 26-27 Crores. So, 14 has gone, to 27 crs, so there is a big jump in the EBITDA just because of right product mix and the gross margin increase.

Manoj Gori: I was just referring to Q-o-Q performance. So if you look at sequentially on a quarter on quarter basis, our subsidiaries have grown roughly around 20% plus, and if you look at the gross margins from roughly around 23%, and EBITDA margin from 12% plus to 9.6% if I am not wrong?

Jasbir Singh: So that keeps on changing, over a period of year, product mix keeps on changing like in railways, there are components with 50% gross margins and there are products which have 25% gross margin. That is all depending on the delivery. So, it will vary from quarter to quarter because in some like in metro air conditioners, there was a tender which was supposed to be there, which got postponed to next quarter. So those kinds of things will definitely happen, but you need to see a complete holistic yearly performance. Quarterly because of product mix, this will keep on changing because I think you are seeing from a percentage point of view.

Manoj Gori: Right. Understood and Sir Sidwal should be a normal year for us? Are we expecting any disruption for Sidwal as well for FY2021?

Jasbir Singh: No. In fact Sidwal is standing very strong despite of zero sales in April, we are still looking for delivering at least 15% to 20% growth in Sidwal, in case we do not get hit by second wave of pandemic.

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

Abhishek Ghosh: Hi Sir. Thanks for the opportunity. Sir just couple of questions other expenses in the current quarter seems to have moved up sharply and you also mentioned that there is a forex element in it. So, what is that element, if we can understand and is it because of that or is something else sitting there?

Jasbir Singh: Sudhir, can you please answer this question.

Sudhir Goyal: Yes, so in the current financials rather in the last quarter, the foreign exchange impact is around 16 Crores on the reinstatement of foreign currency denominated liabilities and the same is passed to the customer in the coming quarters. So that is our business model.

Abhishek Ghosh: So that is the predominant part of increase in 16 odd Crores?

Sudhir Goyal: Yes.

Abhishek Ghosh: Okay and just one more thing, in the current year if you look at your cash flow statement while you have generated good amount of operating cash flow, but that is really not flowed down to any free cash generation because of the acquisition, because of the capex and that has also resulted in getting largely there, so how should we look at your free cash generation and the capex element going forward in the next one or two years?

Sudhir Goyal: See currently our free cash flow as we talk about the PAT plus depreciation is around 102 Crores and it is after the capex which we have done in the current financial year. So otherwise operating cash flow generation is around 234 Crores. Going forward since it is too early to say how this current situation will pan out in future, it is difficult to say how the current year we will perform. So, we need to wait a little bit so that we can come up with the new updates on the business side. Last year has been a good year for us where we demonstrated a good free cash flow and if you see into our debt position which was there and now in first nine months we had about 325 crs of net debt which has come down to 246 Crores, so that is big reduction there.

Abhishek Ghosh: Sure. And just last one from my side, in this current scenario, the imports that you were seeing from China, how has the pricing been post crisis, because China also must be seeing lot of demand erosion for their exports so they must be trying to push lot of supplies into India. Had they cut a lot of amount of pricing, have they become lot competitive vis-a-vis your cost of production or the delivered cost here?

Jasbir Singh: So right now, everybody is sitting with the inventory. So nobody is buying from China, so everybody is prioritizing that their inventory should get liquidated and then they will start buying but looking into the COVID situation, whoever was importing, they had cut down their orders from China and in case China come to a low pricing kind of a thing then there are clauses in the custom duties act, which will be enabled to safeguard the Indian industry. I am looking into the current situation in fact companies have actually started looking very seriously towards outsourcing model because they have seen and especially coming to India after this whole COVID-19 situation because the importers are facing more blunt due to they were importing and as the pandemic hit they have complete inventories lying up at the ports and there are inventories, but whereas the company which are buying from India, they are sitting on the linear inventories so that is the what is actually shifting their behavior towards Make in India, and buying from India.

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

Naval Seth: Good morning Sir. I have two questions. One if you can give some numbers or say revenue loss because of lockdown in the last 10 to 15 days of March and second question as you stated that inventory liquidation at secondary level has started at accelerated phase. So, is it fair to assume that we would be close to last year's number in 2Q or that would also be substantially lower because of gradual ramp up in production and demand scenario?

Jasbir Singh: Okay**.** So on the inventory side Naval, basically I think that it all depends on how June month's sales goes on in the market. If I continue to look at the last 10 days sales it has been very, very good demand in the market and in case the same run rate will go on, then yes what you are saying is right that quarter two would be a normal quarter but in case it slows down because of like we are seeing that lot of states are making a U turn as far as the decisions of lockdown are concerned and there are sometime, they are making it more stringent in some of the states. So, it will all depend on how the June's sale will go on. In case June sales does not go that well as we are speaking at the current run rate, then definitely there will be some spillover of lack of demand in quarter two also. What was second question you asked? You asked about the delta…

Naval Seth: Volume loss that would have had because of lockdown?

Jasbir Singh: So, we were at a run rate of close to about 18 to 19 Crores on daily basis when the lockdown happened. So we have lost about 150 to 160 Crores worth of sales, which would have generated at least 20 Crores more EBITDA and a good amount of PAT has been lost because of that and this is the reason why you would be saying because in anticipation of the good demand, the fixed cost and variable expenses are increased to meet the demand and that was the position when the lockdown happened. So, we lost our profitability also because of the last 10 days.

Naval Seth: Okay and lastly Sir ETR for FY2021, any guidance on that?

Jasbir Singh: Sorry say that again Naval?

Naval Seth: Effective tax rate for 2021 Sir?

Sudhir Goyal: So effective tax rate for current financial year will be the same for Amber Enterprises is around 35% as the last year because we have still good amount of MAT credit available with us and all the other entities will be shifting to a new tax regime of 22% plus surcharges.

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

Ankur Sharma: Hi Sir. Good morning. Just two questions. One on the room AC side, what I want to understand is that since the lockdown started from the mid of March and there was very little or no sales all the way till end April, early May, as you all know lot of inventory piled up and the numbers flooding around are anywhere in the region of 2 to 2.5 million units. So if one, you would help us understand in your view what would that number be and second, I am just wondering even if let say June sales to happen at the current phase, would that be enough to actually, because now the rains have started going into June and July. So, I am wondering when do you really start seeing primary happened both from the brands and then also from your side. If you could just help us there?

Jasbir Singh: So as far as the primary is concerned, the partial lockdown was made effective from mid of May and especially in the green zones where the showrooms started. They took about 10 days' time to liquidate inventory and most of the brands have started primary sales. The secondary, especially in Delhi and NCR region and in UP areas, Agra and we are hearing lot of dealers who have started buying from the company. So primary sales have started happening. In the month of May, the latest data, I do not know exactly yesterday's data but already about 4.5 to 5 lakh air conditioners have been sold in the last 15 days. So because of the heat wave going on, as I told you that this is a sort of essential item which is not categorized in essential category but especially in working from home also you needed and from offices also, so you are right that close to about in the range of, there are various reports which are saying that the monthly total held up in the range because of the lockdown happened to be about 2 to 2.5 million that is the current run rate, normally the trades who to carry your inventory of about 1.5 million, out of which 0.4 to 0.5 million lakhs used to be with the dealers and remaining used to be in the warehouses of the company that was the normal size. So, if we see a good kind of run rate basis, the current run rate that what it is going, this inventory will be coming to a normal rate in next just three to four weeks.

Ankur Sharma: Okay and that is very helpful. So therefore the answer of the previous question that you would expect that going into Q2 even your sales will start normalizing. So that makes sense.

Jasbir Singh: But that is all subject to how the sales happen in June.

Ankur Sharma: Okay but do you really think even in the southern parts of the country, this would sustain because we are all hearing of the heat wave in the northern part especially in the …

Jasbir Singh: See in monsoon area once you get one air conditioner in your home, in monsoons you would need it more because the temperatures are humid, and in fact the southern part of India, the sales continue for at least 9 to 10 months. So we are expecting that yes it will go down, it will not be at the same pace at what it is in north India, but sales will continue.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Thank you for the opportunity. So first data related question, in your presentation you mentioned 2,400 Crores revenue from RAC and components revenue of 577 in standalone, it will be helpful if you actually give some volume related information and what was your market share in the fiscal year 2020, for complete air conditioner and if you take the components into consideration, what would be your total market share?

Jasbir Singh: So basically this 2425 Crores of RAC business was at 1741 in FY2019. So, there is a jump of 39% there and as we told the volumes already that from 2.1 million we have already crossed 3 million this year, so there is a 43% jump in the volumes. In component space, there is a 52% jump from 1011 crs to 1538 crs. So, in component actually giving a volume, does not make sense because the different kind of components are there, number of PCBs, sheet metal, plastic parts, motors, heat exchanges. So, in that volume does not make a value which will matter.

Bhavin Vithlani: And what would be your market share in India?

Jasbir Singh: Well we have now touched to close to about 22% market share of the room air conditioner manufacturing part because we are not a brand but as far as complete market goes, we are there and we are almost about 55% plus in the ODM category of product, which are outsourced market.

Bhavin Vithlani: Understood. Second question is could you talk about competition. Have you seen any newer competition coming up? You mentioned your market share is very strong at 55%. How do you see that playing up?

Jasbir Singh: No. We have not seen any new competition coming up, yes you rightly said that it went into a different thing. But as far as Amber is concerned, we have not seen any big competition, which is coming up at the moment and because of post COVID situation, I do not think so that we will see it for another one year or two years' time and with local production happening and especially the vocal for local campaign will certainly help companies like us in India.

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

Ravi Swaminathan: Hi Sir. Thanks for taking my question. Just wanted to know the opportunity from exports perspective given the anti-China sentiment which is there. Have you started seeing enquiries from other countries for room air conditioners?

Jasbir Singh: So in the first week of February, we first time participated in the biggest air conditioning show in US and the prime reason of us participating was to sense the market there and to understand the products because US markets have a different kind of products, they do not run the similar splits or windows what we have there is the specialty type and we were positively surprised by the response we got from lot of companies. Even in the pre-COVID situation, also were planning for China plus one strategy. Now post-COVID they have strengthened their decision and they are also talking to us. So, we have got a prototype order for some new type of development, which we are doing and as I explained you earlier that already the shipments of motors have started going to US markets and there are increased demand from US markets. So, US itself imports about 2 Crores air conditioners annually from China and Thailand. So that is one big opportunity which is in the finished goods category. And for the products, which are being manufactured in US markets and European markets, the majority of them were buying components from China. So, as this China plus one strategy plays well definitely we will be in a right spot to address that opportunity.

Ravi Swaminathan: Okay but do you see this as a material revenue more for you over a four to five year period, I mean exports?

Jasbir Singh: On a long run yes there are still disability factors because of Make in India due to certain reasons which we have already deliberated to our government and in case there is some kind of support given by government definitely this can be leveraged quickly, but as you rightly said that in four to five years' time, yes we are targeting to have exports as a significant contributor.

Moderator: Thank you. The next question is from the line of Jeetu Panjabi from EM Capital Advisors. Please go ahead.

Jeetu Panjabi: Thanks, Jasbir. I think you have great performance in the environment. I have one bigger question, when you kind of look at the next six to nine months, so next six to 12 months, what would you as a team do differently relative to what you are doing in the past on multiple accounts on the customer account, on the operational account and on the finical side?

Jasbir Singh: See there are very different kind of a measures which we have taken as far as we are speeding up our R&D activities for bringing up the products which we were not offering to our customers earlier so that is one part which we are doing like we are bringing up cassette air conditioners which was not into our portfolio where there were other small window air conditioners which were not into our portfolio, there was smaller tonnages of air conditioners, this is on one part. Secondly we are really driving a smart air conditioner drive to give our customers where it is like a connected device embedded with the artificial intelligence on it where you can talk to your machine and also you can map it with the Google maps and start your machines wherever and whenever required. So, these kinds of unique solutions we are offering to our customers. In all room air conditioner as well as in railways also, lot of data production mechanism were being embedded in the railway side. On the financial side, certainly there are lot of things which are happening, I have explained we have already taken some salary cuts, everybody is contributing towards that but not only that on a longer term, there is a big drive on curtailing down the expenses and monitoring on the fixed costs is more serious now as compared to last couple of years. So our SLE 50 drive has now been very aggressive where we are bringing in every penny which is on the inefficiency side we are monitoring that on this and then on the raw material side also we are doing lot of things along with our R&D to map up the bill of material, the innovative way where we can bring efficiencies level. So, team is working on cost innovation sides from productivity point of view from all other parameters like maintenance point of view, HR point of view, purchase point of view, everywhere the teams are working.

Jeetu Panjabi: Okay. So, the second question is in your path for normalization, do you think you will be back to 80% to 90% level by the end of this year, and two what would be the two most difficult challenges in this path to normalization?

Jasbir Singh: So it all depends on the demand as I earlier said that, it is a big kind of realm of speculation which you are living in, but looking into the potential of air conditioners segment, and the pent-up demand which we are seeing initially, we should be hitting that number as you rightly said of 80% to 90% number and the challenges will be definitely, there will be challenges, small challenges, right now we are, in the short term, challenges will be different and the long term challenges will be different. Short terms there are challenges of like in some factories there is a demand but because of the government regulations we are unable to get complete 100% manpower back to our factories, so we are still restricted to continue with that. So as moving forward in two to three months' time, I think that will get normalized. So those challenges will get over. The bigger challenge I also see is the dollar fluctuation. So, we need to be very focused on what way the dollar goes because still there is lot of imports which are happening in air conditioners. So, these are the two things which we are looking at and now from June and July months. Luckily we are entering into the off peak seasons. So we do not see any labor challenges because of that because normally off peak season in uptick season which have slow kind of a demand from that prospective.

Jeetu Panjabi: Okay. It is very useful. Thanks Jasbir. Take care.

Moderator: Thank you. The next question is from the line of Anshuman Deb from ICICI Securities. Please go ahead.

Anshuman Deb: Good morning Sir and thanks for the opportunity. I had question regarding working capital, so in our last two to three years, which I see, our working capital increased from 29 days to 50 plus days and now we have again gone back to 37. So, if you could give us some color on what could be the sustainable working capital and because we are high quality customers so what are the risks to working capital if any?

Jasbir Singh: So working capital days generally as I have been stating earlier also that it is basically in the sustainable levels in the range of 35 to 40. These are the sustainable levels of working capital, but in case the imported component category shifts to India, then definitely this number will change. This number can go down to below 30 also. So that is not happening in near term, maybe in midterm, in two to three years' time, yes, definitely once the shifting starts, then we will not need to carry that inventories which you normally carry. So those numbers will shift. So in short term the sustainability levels should be 35 to 40. In midterm, it can go to below 30 levels.

Anshuman Deb: Okay and Sir one question is regarding our tax rate. So as we understand in FY2021, tax rate will be somewhere around 30% because our subsidiaries would be at 25 and standalone would be at 35. Is it a right understanding?

Jasbir Singh: Yes.

Anshuman Deb: Okay. Thank you Sir.

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

Amber Singhania: Hi Sir. Thanks for taking my question. Just two questions from my side. One on the manufacturing efficiency side, where do we stand as a country vis-a-vis Chinese manufactures. I wanted to understand despite the increased import duty, how are we placed in terms of Chinese competition in India and second question is if you can give some idea what is our total capacity, what is our utilization and on the best case basis what number one can reach in terms of utilization?

Jasbir Singh: So as far as the manufacturing efficiency is concerned because the China has a great scale advantage which they have achieved in the last 25 to 30 years. So, India market is almost 7 million today vis-a-vis China manufactures about 110 million. So, there is a big gap there and generally it is bigger companies, which are making in good volumes. But in terms of we have already protection of 20% import duties. So components and the finished goods in which certain scale has achieved like window air conditioners have stopped coming from China, even before custom duty increased, it stopped coming because the scale was there and we are still competitive in window air conditioner by close to about 7% to 8%. In outdoor units, India has become competitive. Indoor is one place where we still need to be competitive. In some models, we have achieved that. In some models, we yet to achieve. As the scale is moving up, as we will cross 10 million mark from 7 we will be more competitive and then 20 million definitely will be as par with Chinese in all terms.

Amber Singhania: Okay and in terms of capacity utilizations?

Jasbir Singh: So there are two ways to look at it, one is from component side of view and then finished goods side of view. Finished goods, we generally operate on a yearly basis, if I see our capacity utilizations are almost 55% because of the seasonality part. But if you see on the peak season months, maybe March or April or May, we will be sitting at about 80 to 85%. But having said that in capacity expansion in the assembly lines is not a very big capex, so it is a small capex which are required and you can also run second shifts, which generally is not done in the industry. Whenever required, you can do night shifts also. That is one point. On the capacities of the components, we have different capacities at different components level, like in electronics, we have 75% capacity utilization. In motors, we are right now running at about 67% capacity utilizations. In sheet metal, we are almost about 75% to 80% and in heat exchanges, in the peak months we will be at about 85% but in off peak months, we are about 40 to 50%. So these are different capacity index.

Amber Singhania: Great. Sir just wanted to understand on that part that do we need to put any capex as we have done in the past couple of years, do we continue to need to put capex to this capacity or we can leverage these capacities and improve our return significantly from here. What is the scope there?

Jasbir Singh: There are three components in the capex. One is the maintenance capex. We have 15 plants. So you can consider about 2 to 2.5 Crores per plant is the maintenance capex. Then in the R&D and product development is another 25 to 30 Crores which we do not want to slow it down. So these are the two capex or two components. The third component is the additional new lines or new customers or maybe new component sector or additional capacity expansion in the particular component sector which comes into. So there are many opportunities, which are right now coming in sometimes for the new line of business like we were not making indoors earlier, we started indoor only 1.5 ton then we get indoor into 2 ton capacities. So those kinds of capexes you have to do on the yearly basis as we are progressing forward to make your product basket stronger as compared to others.

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

Shrinidhi Karlekar: Hi. Thanks for the opportunity and congratulations on good set of numbers. Sir we were working on this inverter controller ODM model, I just want to understand the status on that and how far we are from offering ODM inverter controller to the customers?

Jasbir Singh: So in ODM control model, we actually did a joint development program with Infineon which is one of the largest chip manufacturing companies in Germany. The common R&D

resources were pooled down with both the companies and the product is now ready. We have offered it to some of the customers who have tested it in the reliability and they have right now given us some initial orders. So we expect now that designed in India, made for India, product is ready and now we have got about four customers which have given us orders for inverter PCB broads. Another four more new customers are in pipeline which will be covered, because of pandemic, the reliability cycle little bit got extended because we could not send some samples and all, but now we have sent it recently so those reliability will resume and I expect that by November or December those new four customers will also come. So, with the eight new customers, we have seen this inverter PCB board at least moving forward in the next two to three years' time about 500 to 600 Crores additional opportunity apart from what we are doing right now.

Shrinidhi Karlekar: Right Sir and on PICL, if I heard currently, you said margins are above 6%, in your assessment, are those kinds of trade level margins or is there a significant scope to get those to more of a 10% of level?

Jasbir Singh: No. See PICL has actually used to have 7% to 8% of margin, then it fell down because PICL used to export its motors to middle East, then middle East crisis happened, so we quickly shifted to domestic markets and we produced new development, we did new development for domestic markets and now back on track. So we are now about 90% of domestic market and 10% exports. Earlier it used to be 50:50. So the maintainable margins for PICL are in the range of 7 to 8%, which will be come back by next year. I mean not this year of course this is different year but we have started moving ahead and I think the next financial year we should get the number of 7 to 8%.

Moderator: Thank you. The next question is from the line of Ashwani Kumar from Nippon India Mutual Fund. Please go ahead.

Ashwani Kumar: Good afternoon Sir. I just wanted to ask you in any of the components, is the spare and service market also open for you and are you addressing it any fashion?

Jasbir Singh: No. Actually spare and service, one I would like to put it this way that we manufactured very good quality air conditioners. So, it is hardly any requirement on the spare side. But yes generally spare and services basically controlled by the brands themselves. So, it is a profit center for them. There are very small number of motors or heat exchanges, which go in the spare market through brands, but that is very, very small number. It is not a very big number.

Ashwani Kumar: In case of railways also, would there be any such opportunity of spares year?

Jasbir Singh: In railways, we have a very strong business of AMC, annual maintenance contracts. Railway, we do close to about 25 to 30 Crores of business of annual maintenance contracts for all the railway zones, all in India. So, we have about close to nearly about 450 to 500 people spread across in India on almost each station to service the railways for air conditioners on the roof mounted air conditioners on the railways.

Ashwani Kumar: Sure Sir. Thank you very much.

Moderator: Thank you. Due to time constrains, we will take the last question from Praveen from Edelweiss. Please go ahead.

Praveen: Thank you for taking my question. So, I have two queries. So one in this challenging time, do you expect your debt level to increase from the current level?

Jasbir Singh: Yes. I think because we have some customers who have delayed the payments and we have import obligations to take care. Though our creditors, the suppliers from import side have extended some credit to us, but that will not be sufficient because some letter of credits have to be honored and as we move on when will be opening up, definitely the debt levels will go up at least in quarter one and quarter two but then it will start coming back once the normalcy comes back.

Praveen: Next question related to which you were emphasizing on the R&D spending and the R&D speeding up. So can you give any color on when you are expecting to enter in the compressor business as well?

Jasbir Singh: Well compressor business right now is not on ground for us, we do keep on evaluating, it has to be completely feasible for us. But we are looking into expanding our horizons on the electronic component side, on more motors like we were not present in BLDC motors. So we will be setting up expansion line on BLDC motors and also on a new range of products, where we want to bring new component categories which we were not into. So yes there are lot of opportunities on the components but right now on the compressors, we are still evaluating. So currently in a short term, I do not think so we will be entering into compressors.

Praveen: Okay. Thank you Sir. All the best.

Moderator: Thank you. I now hand the conference over to Mr. Jasbir Singh for closing comments.

Jasbir Singh: So we believe that business will once again emerge as they were in pre-COVID times and demand will normalize over a period of time as we move ahead with the growth opportunities we foresee on the domestic and export front, we believe we are very well positioned to capitalize on the opportunity. Thank you everyone for joining us. I hope we have been able to answer to all your queries. In case you will require any further details, you may please contact us or our investor relation advisors, Strategic Growth Advisors. Thank you all. Stay safe.

Moderator: Thank you. On behalf of Amber Enterprises that concludes this conference. Thank you for joining us. You may now disconnect your lines.