# "Amber Enterprises India Limited
# Q1 FY21 Earnings Conference Call"

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**Moderator**: Good morning, Ladies and gentlemen, welcome to Q1 FY21 Earnings conference call of Amber Enterprises India Limited. This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over Mr. Jasbir Singh, Chairman and CEO of Amber Enterprises India Limited. Thank you and over to you Sir!

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

**Now let me first talk about the impact of COVID on our business and the current situation.**

Due to all India lockdown restriction and halt in economic activities across the country during the peak summer season we witnessed a sharp drop in sale of air conditioners in Q1 FY21. We were however positively surprised about the uptake in demand for air conditioners for the month of May and June. As the lockdown restrictions were eased, we have witnessed a surge in the demand for air conditioners especially for Tier-II and Tier-III cities. We also saw an uptake in online purchases of air conditioners despite lockdown, this gives us the confidence that air conditioners are no longer a luxury product and has become a necessity now and room air conditioners market is at inflection point and bound to grow here onwards.

In May 2020 we partially resumed our operations, which gradually increased in June 2020 across all our plants in India after taking requisite government permissions. The pent-up demand led release of inventories from the channels and we witnessed new manufacturing orders from OEMs. In June 2020 we operated at 50% to 60% of capacities, the demand scenario has been improving on month-on-month basis and is encouraging, but since monsoon has arrived across the country we have entered the offseason for air conditioners. We anticipate that demand scenario should reach normalcy by around Q3 of FY21.

**Let me talk about the recent development and opportunities going forward.**

It has been estimated that about 30% of finished goods room air conditioners has been imported in India in FY19, value wise it should be approximately about Rs. 4200 to somewhere about Rs. 4500 Crores and an equivalent amount of components of room air conditioners including compressors are being imported and this is expected to grow to 2.5 to 3x by FY25.

To reduce India's import dependency and make India global manufacturing hub, government has selected 12 champion sectors to make them the global manufacturing hub and AC industry being one of them. As per various news and media articles, various policy reforms are under discussion to curb the imports under Atmanirbhar Bharat imitative like implement of PMP, which is phased manufacturing plan for room air conditioner and its components under which import duties will be hiked in phased manner over the period of five years to bring air conditioners under licensing system and to also introduce production linked incentive scheme for air conditioners. As a matter of fact, we envisage that this has become a priority for the government and active movement is happening. We expect some announcements on above initiatives soon. We believe this opportunity will further strengthen our presence in the domestic market and create a solid foothold for exports market.

China plus one strategy is unfolding huge opportunities, we have already started getting inquiries from big global players for room air conditioners as well as components. We are confident towards achieving the most out of this opportunity on the domestic as well as on the export front.

Having said about the opportunities, **I would also like to highlight on our capabilities to cater the same**.

In addition to our wide range of room air conditioners with multiple SKUs across all star rating and tonnage including inverter ACs, we have successfully launched our wide range of offering in commercial air conditioner segment also. We are continuously investing in R&D for new product developments and better energy efficient products. We are also expanding our product portfolio in commercial air conditioning space to leverage and increase our wallet share in existing customers as well as acquire new customers.

**I will now take you through the consolidated financials. Please note that due to the pandemic situation this quarter is not comparable with the corresponding quarter of last year as there was complete shutdown of operations for almost half of the quarter, which was also the peak season for air conditioning industry.**

On revenue side our consolidated revenue for Q1 FY21 stood at Rs.259 Crores as against Rs.1,236 Crores in Q1 FY20 a drop of 79%, for the quarter RAC contributed 61% of total revenue while components and mobile application contributed 39% of the revenues.

On EBITDA side, Q1 FY21 witnessed an operating EBITDA loss of Rs.3 Crores as against operating EBITDA profit of Rs.116 Crores in Q1 FY20. The drop in revenues led to de-operating leverage playing out, we have resorted to various cost rationalization programs to curtail our fixed and semi variable expenses of which some of the benefits will be retained on long-term basis.

Now coming to subsidiaries financial,

On Sidwal our mobility application, our railway and metro business segment has been able to withstand challenges from COVID-19, we have been able to acquire new orders and strengthen our order book despite weak economic scenario. During lockdown period Sidwal has bagged new orders worth more than Rs.115 Crores to be executed over the next one to two years time. Due to early resumption of activities in May 2020 after a complete lockdown period and order based business there was marginal dip in revenues for Q1 FY21 on YoY basis. Q1 FY21 revenues for Sidwal stood at Rs. 30 Crores and EBITDA stood at Rs.4.9 Crores with an EBITDA margin of 17%. We have utilized this time to enhance our capabilities in R&D, we have strengthened our commercial and bus and truck refrigeration solutions along with continuous development for metros and railways as well. With strong order book in hand and no major delays envisaged in order execution due to COVID-19 we maintain a positive outlook for Sidwal in FY21 as well. We believe that over a long term period with increasing footprints of metro in various cities and increased manufacturing of air conditioned coaches we are confident of achieving good growth in Sidwal.

PICL our motor subsidiary, revenue for PICL stood at Rs.8 Crores for Q1 FY21. For Q1 FY21 the PICL business saw an operating EBITDA loss of Rs.1.8 Crores. In PICL we have been working on new product development for various applications and markets. PICL have successfully widened its product offering from current PSC motors to BLDC motors. PICL is also in discussion with various customers to launch motors for washing machine and higher voltage motors for commercial AC segments, it has also been approached with RFQs from various large global manufacturers based out of US and Middle East with increase in product offerings and enhancement in our capabilities, we believe we will be able to cater domestic and export market in more meaningful way in near future and expect to double our revenues in the next two years time.

IL Jin and Ever - For Q1 FY21 revenue for IL Jin stood at 16.7 Crores and in Ever revenue stood at 16.8 Crores both the businesses experienced operating EBITDA loss for the quarter of Rs.1.7 Crores and 1.2 Crores respectively. As the market is moving rapidly towards inverter air conditioners we are confident of growing our revenue share from IL Jin and Ever going forward. We have been adding customers in both IL Jin and Ever and now post completion of reliability of our own developed inverter PCB board we expect to add around 250 to 300 Crores more business in IL Jin and Ever in the next one to two years time.

Consolidated PAT - Due to significant drop in revenues because of COVID-19 pandemic and de-operating leverage play out, we witnessed net loss for the quarter ended June 2020 to the tune of Rs.24 Crores as compared to net profit of Rs.64 Crores in the same period last year.

Our net debt on consolidated basis for June 30, 2020 stood at 407 Crores.

We have been collectively working with our customers and vendors to navigate these challenging times and we believe we will emerge with stronger relationship for long-term mutual benefits.

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

**Moderator**: Thank you very much. We will now begin the question and answer session. The first question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.

**Bhoomika Nair**: Sir I have two questions, one is on the near-term numbers if you can talk about how July has kind of panned out in terms of what percentage decline though I do understand it is offseason and what would be the inventory levels in the system both at the brand and the dealers put together, so that is question number one?

**Jasbir Singh**: On the July level we have witnessed almost similar to June level kind of a scenario where we saw about 65% to 70% of order book as compared to last year month-on-month basis if we compare. On the inventory side, when lockdown was announced of course there were no research reports on this, but through industry resources the number are somewhere about 2.2 to 2.3 million air conditioners in the inventory with dealers as well as the warehouses of the brands. So mid of May was when the lockdown started opening up in green zones and that is when the sales started happening so almost about close to 5.5 lakh air conditioners are sold in May and almost similar number was sold in June and July was a little bit less than June because of offseason, but I believe that almost close to 15 lakh air conditioners have been moved out of the inventory in this two-and-a-half months time. I believe that looking into the uptick in demand and working from home scenarios where you need more air conditioners, demand has come almost to a normal level I believe by September or October we will be seeing that the inventory level has come to normal level.

**Bhoomika Nair**: Sir my second question is more on the long-term, which you spoke about import duties and various government initiatives to drive higher indigenization, here I just wanted to understand for us what is the capacity that we have that we can take advantage of incremental capacity requirement that we will need and on the component side HC compressor if you can talk what is our import substitution opportunity from PICL, IL Jin, Ever or any other and how competitive are we to kind of capture that market?

**Jasbir Singh**: So basically Bhoomika on exports front we have already started exporting and our shipments have started moving to US and Middle East markets so we are pretty competitive on components side, there are some models on which we still need to work on which we are working on by bringing in some innovation there. On room air conditioner side for US markets they do not require similar kind of split air conditioners or window air conditioners what we use here, so we are developing new kind of models for them right now and we have received some prototype orders from US and we expect to launch them by December or January and next year will be our reliability cycle, but China plus one strategy is quite playing well and I believe on competitiveness we will be able to meet the customers' expectations because we have had a initial round of discussions then only RSQs comes to you otherwise they do not even float RSQs if you are way beyond the competency levels.

On the capacity side, we calculate capacities on the peak month capacities basis we do not do it on yearly basis, if I see from yearly perspective we have capacities of almost about 4.8 million units or maybe 5 million units and exports if it comes we will not need larger capacity buildup because generally the export starts from May and it ends up in September, October so it is very complementing for us any export orders we will not have to add any capacities. However if all the policy reforms are announced there we would need some addition of capacities on assembly lines and some on component side.

**Bhoomika Nair**: So we would have done last year with a 3 million so of the 5 million broad capacity we utilized 3 million so far would that understanding be correct Sir?

**Jasbir Singh**: Yes, so but the 5 million is a yearly capacity so when I say that if the orders are coming from exports then we do not need any further capacity buildup, but if there is a ramp up on the domestic side like all the 30% air conditioners, which were imported gets basically diverted to local manufacturing then certainly we will have to build up small capacities in the assembly lines and in components backward integrated space.

**Bhoomika Nair**: What kind of capex that requires?

**Jasbir Singh**: It all depends on what kind of opportunities we get, because we are seeing a new customer cluster coming up in South so that is pretty much on card so there will be a Greenfield facility, which we will have to put up so there will be a capex of about 150 odd Crores to start with which will be spread in two financial years to begin with and in case we have to ramp up on the component side and on the backward integration side almost similar kind of capex would be required but that is subject to the policy reforms announcements otherwise if those are not announced then we would not need that much of a capex.

**Bhoomika Nair**: Okay Sir, I will get back in the question queue all the best.

**Moderator**: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

**Nitin Arora**: Sir just on a longer-term thing which you talked about the PLI scheme can you elaborate a little bit where does that PLI scheme comes in AC category when compressors are any which ways are getting made or rather getting imported or made in the sense that whatever the new capacities by few MNCs have been put enough is it more to do with IDU and ODU where the PLI would come in and if that comes in the IDU, ODU what is the entry barrier a brand cannot apply for that scheme if it has to be for the domestic market so just wanted to understand from you?

**Jasbir Singh**: See production linked incentive (PLI) schemes is being discussed on the similar template what has been announced for mobiles and if you see mobiles they have kept a low investment criteria for domestic companies and they have a very high criteria almost five times more for the multinational brands so similar kind of template is being discussed both for air conditioners and its components. Now the structure has still to come out it has not been disclosed as yet so I will not be able to comment on that particularly, but this is pertaining to complete air conditioners not only for IDUs or ODUs it will be all type of air conditioners will be covered, room air conditioners will be covered in the segment and PLI addresses basically two fundamental things one is it gives parity for exports where you get some production linked incentive and you become more competitive in exports and that is one part and secondly it also comes with a objective of creating a global Indian champions out of India so that is the reason why domestic companies have a lower barrier for investments and threshold for other bigger brands are more.

**Nitin Arora**: Sorry just to take it further, mobile we understand because it was already getting manufactured in India about 75%, 80% government just took that money away from an MNC and giving to the domestic guys. In AC category, as such where does that scheme benefits for example my question was more towards even if that scheme comes in and I understand the company keep built units are very much low as of now because of the last two, three years you can correct me if I am wrong and any vendors own supply chain is very much dependent on overseas I think including yours so where does that benefit comes to you because when the overall the completely built units are down and if a brand applied for that for a particular PLI scheme and it is for the domestic market a brand can go and apply and start making and get back benefit in because he already run a plant and he has to just incur and if you are seeing it is a magnitude for the domestic than the smaller it will be a high ROCE for him straightaway so just wanted your thoughts on that, that is my last question?

**Jasbir Singh**: Well if you see on room air conditioners also only 30% are getting imported rest 70% air conditioners are manufactured here so it is similar to what mobile phones were witnessing. On the brands of course in mobiles also you will see that all big brands have also applied and domestic companies have applied and government is picking and choosing five in each categories right now, so similar kind of things will come up, but it is very initial stages right now to comment on what kind of structure they will come up with, but if production linked incentive scheme for example similar to mobiles are announced, which is about 5% to 6% of incentives in initial two years then it gradually goes down so that makes the component ecosystem more competitive in India and the whole component ecosystem one it will be whatever investments you do you can recover it sooner because of the incentives so it will make more viability of those components getting manufactured here and as Amber we are very rightly placed company to take advantage of that scheme whenever it is announced.

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

**Renu Baid**: Sir my first question is to understand bit on the non-AC side of the business, which is largely looking at Sidwal and IL Jin, Ever, so here on Sidwal you did mention that there is a reasonable large order backlog that you have built up, but can you also share the inputs in terms of as we were working on significantly improving the margin profile of the business and reducing working capital so how should one look at financially this business turning around and contributing higher numbers in the next 12, 15 months on the strong backlog that we have reported?

**Jasbir Singh**: On Sidwal basically when we took over in last year of May, Sidwal had almost 17%, 18% EBITDA levels and because of our initiatives we took it to 24% and the net working capital days were reduced from 180 to almost 83 so there has been significant improvement in productivity, inventory turns and asset turns and other R&D initiatives, which we took, so the order book which we are gaining now is in line to our initiatives and we will be maintaining similar kind of a margins or maybe we get some more margins also as the defence is also opening up as Sidwal also plays a role in defence applications the margins are very, very strong.

**Renu Baid**: On the component side both with respect to Ever, IL Jin and the motor portfolio as the motors you have mentioned that we are in advanced stages for exports as well as expanding portfolio on the BLDC and washing machine portfolio, but in your sense the size of the business is fairly small today given that imports and for a lot of the other white goods will look for domestic sourcing so what is the kind of opportunity you think would be available for PICL and is there a possibility that it can leverage out and increase its product offerings in other categories especially washing machine meaningfully in the next 24 months otherwise the opportunity would be lost if it takes longer time to scale up?

**Jasbir Singh**: We mentioned that during my earnings call that PICL we are expecting to double our revenues as compared to last year within the next two financial years mainly because of domestic traction because of China plus one strategy and also because of the export orders we are now ramping up the export order in hands, so yes the margin profile will get better because the utilization of the assets will be better, so there will be definitely a positive uptake on the margin side also. So we expect at least 150 odd bps increase in margins going forward in PICL.

**Renu Baid**: But can you share potential clients who could be added your customers or applications which can be added here in the next 12, 18 months where you think you are ahead in terms of the reliability cycle?

**Jasbir Singh**: We are working on three sectors there, one is in the room air conditioner sector we were not present in BLDC sector so we have now launched our product portfolio. Second we are getting into washing machine motors so our washing machine motors is ready and it is under reliability and we have already received one order from a Japanese client. Third is the commercial air conditioners and adaptable bigger tonnages air conditioner motors so that has already been launched and orders have started coming in, so all these three sectors have come in and plus we are developing unique motors for US markets so the shipments have started going on.

**Moderator**: Thank you. The next question is from the line of Nitin Bhasin from Ambit Capital. Please go ahead.

**Nitin Bhasin**: One question is about the capital raise and possibly allocations we saw the resolution where you are looking to raise capital can you tell us what prompts your thinking and if done what sort of a range are you looking at in terms of size and would it be done for something like acquisitions because in the last few years we have done about three, four acquisitions and how should one look at it in terms of what capabilities are you acquiring these so that will be the first one I will come for the second one later?

**Jasbir Singh**: So we have taken enabling provision for one year looking into the various policy reforms, which are under discussion right now, so we would like to definitely leverage all the opportunities coming forward for the company and looking into COVID situation we want to pay a very big balance between our growth ROCEs and debt, so we have taken a enabling provision up to Rs.500 Crores base, now it will all depend on if the policy reforms are all announced and we have to immediately ramp up or maybe bring up new unit so we will be going ahead with that. Right now we will not be able to comment on what exactly how much will be fund raised, but the enabling provision has been done for up to Rs.500 Crores.

**Nitin Bhasin**: It is not for inorganic it is largely for organic expansion opportunities that you may perceive it is not for inorganic?

**Jasbir Singh**: At the moment yes, but it will be a mix of things because of the COVID situation there are some opportunities on the inorganic side as well, which we are discussing so it will be a mix of both.

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

**Bharat Shah**: Mr. Singh how do you get rid of China in the compressor ecosystem?

**Jasbir Singh**: Sir compressor ecosystem actually has started building up in India as well so there is a company named Highly, which has a plant in Ahmedabad and another company which is GMCC. So Highly has about 2.4 million capacity at the moment in the country and they are ramping up their capacities by another million by next one year or so and GMCC which is the largest compressor manufacturer of the world they are putting up a factory here because of COVID it got delayed otherwise it would have started by now, so we are expecting their factory to start by end of this year and they are starting the capacities of 1.5 million but the plant layout has been made in such a manner where they have done a provision for 6 million capacity and there is one large Japanese client also looking to put up a facility for compressors by next year so I think in the next two years time we see the compressors will all be starting getting manufactured from India.

**Bharat Shah**: Yes but this capacity is first of all in the minor section of the total need and even that is a small offering so to that extent that is not something huge?

**Jasbir Singh**: No, if you see today 30% of ACs are imported so out of 70% almost 2 million compressors are getting sold within India getting manufactured from India and with these new capacities which both compressor manufacturers are ramping up next year, almost 50% industry will be catered within India and as third manufacturer is putting up facility so by next two years I think almost 80% to 90% of industry will start receiving compressors manufactured in India.

**Bharat Shah**: What about components ecosystem?

**Jasbir Singh**: Component ecosystems like inverter PCB boards and motors it is getting developed so we already have three motor manufacturers in the country naming PICL, which is one of our subsidiaries and we have Japanese company called Nidec and Regal Beloit which is a US company they have presence in India and all three companies are ramping up their capacities to meet the demand as the PMPs will be announced so there will be a lot of traction. Today almost 32% motors are getting sourced locally and remaining are coming imported so that is what government is targeting to actually curb these imports over period of two to three years time, but as far as capacity's technology everything is available here and on the inverter PCB boards almost about 35% of PCB boards are getting manufactured already locally and now recently we have developed our own PCB board along with joint development program done by Infineon, which is one of the chip manufacturer company based out of Germany so that has been very successful and now we are seeing that lot of people are shifting their orders from China and Thailand to India with us, so I think in next two to three years time PCB inverter boards also will start getting manufactured in India and the only component then would left is copper and aluminum foil so industry has jointly done a big meeting with Hindalco and they are planning to put up facilities for aluminum foil also. So I think in next three years time as far as air conditioner sector is concerned we should be in a reasonable self reliant mode for the component ecosystem also.

**Bharat Shah**: Thank you Mr. Singh.

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

**Ankur S**: First on the standalone numbers if you could share the volume sold during the quarter, AC volumes and also we once again see a pretty sharp decline on the gross margins on standalone, which is down to about 11.8% versus 15% last year, so is this again because there is a mix where you have higher IDUs in the quarter is that the reason why and can we expect this to continue over the next couple of quarters?

**Jasbir Singh**: So in last year we had done about close to 1 million or so and this year we could hardly do just 200,000 numbers and we were actually not expecting any order before July or August the way lockdown was getting announced, but we were positively surprised by the orders started coming from end of May onwards to us, we were positively surprised by the orders which flew in, but yes the margins basically was because largely it was only indoors which were sold not the complete units which were sold in this quarter and that is the reason why margin is down on the standalone.

**Sudhir Goyal:** The major impact for dipping in the gross margin is in core expenses like detention charges, which were being paid by the company due to lockdown to the shipping agencies and since the revenue is hardly 200 Crores so that expenses contributed a lot around 1.5% to 2% for dip in the margin because that is not being loaded on the inventory valuation because these are the nonoperating expenses.

**Ankur S**: As you mentioned earlier going into July you are talking of 65% to 70% utilization versus last year so how do you see that projection and you said by Q3 you think it will kind of normalize so should it be that we see about 25%, 30% fall maybe in Q2 and then maybe a flattish Q3 and then some growth in Q4 is that the trajectory of a recovery on your quarterly basis if I have to kind of look at the next few quarters?

**Jasbir Singh**: It all depends how our clients are performing, some of the brands have done extremely well and it all depends on mix of because we have mix of clients both multinational companies and domestic brands, so it will depend based on that, but yes Q2 looks like almost in the range of 60% to 65% as of now as we speak, but we see normalcy coming in Q3 onwards.

**Ankur S**: Lastly Sir if you could talk about the gross debt number, which is there I think you spoke about the net debt which is there on the books it is about 400 odd Crores, what would be the gross debt and where do you see this number by the year end, that is my last question?

**Jasbir Singh**: Sudhir would you like to answer please?

**Sudhir Goyal**: Yes Sir. So the gross debt is around 550 Crores so we have around 150 Crores of a cash balance in our books and expected net debt for FY21 we have to still wait for some more time that how the buildup is happening on the order book side since customers are still planning and sharing it with us that is how they are planning for the coming season. So probably we will be able to share the expected number of net debt by September quarter.

**Ankur S**: Alright Sir great thanks.

**Moderator**: Thank you. The next question is from the line of Amber Singhania from Asian Market Securities. Please go ahead.

**Amber Singhania**: Just two questions from my side, first is on the export side if you can just give some color about what kind of size you are looking for in this year and next year in terms of export revenue and margins in this respect and secondly when we are talking about developing the ecosystem for AC and component manufacturing in India how do you see the competitive landscape panning out because as of now Amber is the only virtually owned company which are manufacturing the ACs in India?

**Jasbir Singh**: On the component ecosystem, exports opportunities on motors we have started as I told you that the reliability cycle is over and we have just started shipping to just three customers right now in US and Middle East, but we have 16 more clients where we have applied for participated in RSQs and bidding which they do and they are large customers so we are expecting a very substantial, for motor business at least we are expecting at least 30% to 35% of contribution from exports going forward in coming years, which use to be just 10% last year.

On the competitive landscape I think we are now getting competitive as we are gaining scale momentum that is where our competiveness is getting proved because we are participating in RSQ so we know where other countries are bidding and we have started getting orders, which is a testimony that we are competitive in that space, but yes on some of the models on especially finished goods in 1 tonne and below category we are not competitive at the moment, we have still to work on that and we are working on that. We get tonnages model, we are now almost at par with the customers' expectations.

**Amber Singhania**: As an overall company where do we see exports panning out in next two, three years in terms of price?

**Jasbir Singh**: On exports on a short-term basis it will be moving slowly because on a large revenue mix it will be contributing very small amount, but mid to long-term basis we expect a large contribution from exports coming onwards. First the products has to go through reliability because all our components in which we are present like heat exchangers, inverter PCB boards, motors and all, the final products performance is depending on the functionality of these components, so no customer would give us approval without conducting proper reliability assessments and the reliability assessments are generally range from somewhere from 9 months to 18 months depending on what kind of customer they are and that is the first leg of entry barrier so we have crossed this entry barrier with some customers with many of them we are still crossing that milestone that is first barrier. After this no customer gives us 100% share of business on day one they will gradually grow that is the reason of a strong mode in our business, it takes about four to five years to built up being a standard supplier to any large customer or a multinational companies so that is why I am telling you that on short-term it will be slow, but on a mid to long-term basis definitely it will contribute significantly in our revenue.

**Amber Singhania**: Margin Sir?

**Jasbir Singh**: Margin is at par with the domestic what we are doing today, in some models it is less as I told you but it still make sense for us because it is a complementary business in the offseason because July, August, September are our lean period where if that orders come even at a lesser margin it make sense for us, but otherwise on the most of the models we are seeing that it is at par and in some of the models especially in motors we are seeing that it is better margins also as compared to domestic market.

**Moderator**: Thank you. The next question is from the line of Jignesh Kamani from GMO. Please go ahead. As there is no response from the current participant, the next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

**Bharat Shah**: Mr. Singh continuing with the earlier discussion what is your opinion are the weak spots in developing compressor in component ecosystem, which even over a three to four year period we may not be able to possibly breach so what may continue to remain weak points even after three to four years?

**Jasbir Singh**: Well Sir for compressors if you see the basic raw material of compressor that is electrical steel there are routers, which goes into that and there are motor shops, which goes into that, so generally at the moment the capacities, which are being built up there the basic raw material is import dependent so I think if the government has to do something for the component ecosystem for compressors if that is addressed then 100% you will see that it is getting manufactured here, so in first phase the manufacturing is in SKU forms so basically they will be assembling the larger part of it, but the basic raw material is being imported, so that can term as a weak spot if the basic raw materials are not taken care of with the proper duty structure it should not, right now there is a inverter duty structure, which happens, which is actually holding large part of compressor manufacturing so that has to be rectified. I think that can become a very weak spot moving forward in case that is not addressed.

**Bharat Shah**: On component side?

**Jasbir Singh**: Component side it is only R&D I think everybody has to focus on their own strengths of doing their R&D and developing the complete ecosystem not only assembling so that will be otherwise on component ecosystem like in motors case if I see we do not import anything today from motors even the copper wires, which are used that is Indian manufactured copper wire so there is complete self reliance in motor space whereas in inverter PCB boards there are many components of electronic populated, which goes on the populated PCB boards like heat things and capacitors and other things, which still are imported, but it can be imported other than China also so it will depend on how that shift is happening, so moving forward I think electronic basic component ecosystem also has to get developed here, if we see today in mobile case also all the PCBs are getting manufactured here but the components which are populated on those PCBs are all imports so moving forward for three to four years time as you ask that can become a weak spot in case those component ecosystems are not developed here.

**Bharat Shah**: Sir basically trading and imports is a kind of a lazy addiction to OPM it does not allows you to become strong because you do not develop a full knowledge of the entire chain and it is just become over a period of time we lose your capability once you stop doing something lesser and just rely on imports in a very lazy way of course till the areas of competence where others may have a far better strength and it may be better to rely upon them, but over a period of time lot of manufacturing has hollowed out simply because of the lazy addiction rather than really it hit to?

**Jasbir Singh**: Yes Sir you are right in fact what I say is that during all these years from last 20 years our industry has moved from just 5 lakh air conditioners to almost 70 lakh air conditioners market, but the component ecosystem has not developed as you rightly pointed out its propensity towards getting attracted towards a better price, which makes us complacent for our own development activities so in a way we have exported our capabilities of product development to outer world so that is something, which we need to reinvent again and as Amber we are willing to do we have even shown our willingness and we have done that successfully in motors when we took over a motor company where 90% to 80% of raw material was getting imported, but today if I see we do not import even a single piece for motors from there so we are completely manufacturing it in-house and it is possible so it all depends on the willingness I think if willingness is there intent is there certainly it is a journey to be traveled and it can be traveled.

**Bharat Shah**: Sure.

**Moderator**: Thank you. The next question is from the line of Aditya Kumar from JSK Investment. Please go ahead.

**Aditya Kumar**: I believe you have answered the PLI question in depth and a lot of questions were asked on that as far as I have seen that all the bases are covered on that. My second question is on your order book and where does it panned out and what is the movement in the order book and any new plans that you added?

**Jasbir Singh**: Well order book is getting strengthened on month-on-month basis from May there was hardly any orders. In June, orders started flowing in as the inventory started getting liquidated in the systems and July also we saw almost similar kind of a thing, so it is still we are seeing that there is a mix feeling, some of the brands are doing extremely well some of brands are not doing well so it depends, like we are also present into non-AC component side so we saw a great demand coming in for other products, which were non-AC segment like refrigerator, washing machines and microwave ovens, which we were doing we were preparing components so order book is getting ramped up right now at the moment. As far as Sidwal subsidiary is concerned there we have a strong order book, we have already bagged 115 Crores worth of orders in the pandemic new tenders we have won and order book stands to almost about Rs. 550 Crores right now, which was earlier in the range of Rs. 400 Crores so we have a strong order book there.

**Aditya Kumar**: Thank you Sir, that helps all the best.

**Moderator**: Thank you. The next question is from the line of Nikunj Gala from Principal Mutual Fund. Please go ahead.

**Nikunj Gala**: Sir my first question is with respect to the capital requirement so considering the PLI scheme similar to mobile manufacturing accounts for ACs and according to your assessment what kind of a capital you require for this amount of time to see these long-term opportunity available?

**Jasbir Singh**: Capital requirement will depend on what kind of opportunities we come across, if there is a license system on air conditioners and it will be in tune of room air conditioners, which are getting imported right now. If PMP is announced then it will invite for opportunities in component ecosystems so in component ecosystem and all put together it will completely depend on when it is getting announced and that is how, but I think on a normal going basis right now we are looking towards as I explained that one Greenfield facility, which will come up where we will be doing a capex of almost 150 odd Crores to come up with plus we have this maintenance capex at all 15 plants.

**Nikunj Gala**: What is the maintenance capex per annum?

**Jasbir Singh**: That is about 28 Crores to 30 Crores.

**Nikunj Gala**: Asset turn in the component ecosystem would be similar to our company's level asset turn or it would be slightly different from that?

**Jasbir Singh**: It actually varies because we have got pretty diversified company, in electronics asset turns can go as high as 10 to 11, in motor space we can go to 8 or 9, but in heat exchanges the maximum asset turn one can achieve is only 5, so it all depends on what kind of opportunities get through.

**Nikunj Gala**: What is the ROCE level if you look for while putting up capex?

**Jasbir Singh**: So we have a policy, any capex which goes through a committee, we have a six-member committee, which decides on capex approvals and the committee is driven through some policies and principals and the basic policy there is that if we do not get ROCE of 20% we do not go ahead with that project so you will see that we have also guided in past I will again reiterate that our maintainable ROCEs on a long-term basis are in tune of 23% to 24%, we have already touched 18.5% last year this year of course has to be discounted, but from next year onwards you will see a positive traction on ROCEs, so that is where the long-term maintainable ROCEs are going to be there.

**Moderator**: Thank you. The next question is from the line of Jignesh Kamani from GMO. Please go ahead.

**Jignesh Kamani**: If I look at the mobile side, PLI scheme it will be applicable on the incremental capex on the incremental revenue so since we already done large part of capex and significant revenue done in place it will be detrimental to us because for the existing clients who are buying component IDU, ODU from us and that if PLI similar to mobile is announced I will prefer to buy from competitor who get benefit under PLI or do in-house and claim PMI because on the current capacity we would not be able to offer such kind of incentive to this player?

**Jasbir Singh**: In our sector what is under discussion right now I will not be able to comment on the structure and the kind of threshold because that is purely government's decision what kind of structure they will come up with, but apart from incremental capex and incremental revenue there is a incremental value addition metrics also which is being discussed so the companies which have a larger value addition will benefit from them.

**Jignesh Kamani**: But whatever investment we have done in past and whatever revenue are we going with any benefit under PLI right while other player who start such investment either we or competitor will get the benefit is it right understanding?

**Jasbir Singh**: It all depends on what kind of structure they come up with, in case it is a similar template to what they have come up with the mobile case then the incremental revenue and see basic objective of production linked incentive is there are three objectives of it one is to cater to export, second is to create global Indian champions by making them more competitive, how they will make more competitive is by coming out with the scale, so once the economies of scale come up you reach to a certain level where you can be globally competitive and definitely you win in Indian markets also, so that kind of objective will be achieved by the companies applying for PLI, it could be brand, it could be any company like us and we believe that because we are more backward integrated and we are having larger value addition part in our range and also looking into the component ecosystem and the export opportunities coming forward so we will benefit by incremental capex as well as the incremental sales turnover, but it depends on what kind of they will come because they have not come up exactly similar in medical, electronics and pharmaceutical, so in pharmaceutical also PLI has been announced it was a very different structure so it will all depend on what kind of structure government comes up with.

**Jignesh Kamani**: My second question was on the compressor do you think India has skill to develop compressor ecosystem because if you take about Highly, they are in India since seven years and still they are loss making even after the duty structure get reversed last year and they maintaining one of the impression that they have postponed their expansion plan because it is not viable?

**Jasbir Singh**: Well you are right they came seven years back and the only reason they have been doing loss because of the price parity, which was everybody was getting cheaper compressors from outside and they did not ramp up, they already have 2.4 million capacities and once their capacities will be built up they are willing to, we had a discussion with their senior most members and they are willing to invest further for ramping up their facilities by 1 more million in case this PMPs are announced so it all depends because if you see Highly was very loss making when the duty structure was only 7.5% by 10% they got some breather and 12.5% made them come out of that, so now another 2.5% or 3% will definitely give them a leverage to see positivity on the bottomline also and it will make them competitive.

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

**Shrinidhi Karlekar**: Sir it appears like company has amazing opportunities from AC side, component side, commercial refrigeration, mobility, I just want to hear your thoughts on how companies investing on capability building both on the management side and R&D side manufacturing side to exploit this opportunity?

**Jasbir Singh**: We are working on all the fronts, we are working on like training and developments, we are working on large R&D base and we have a big system there where we train fresh engineers also and we continuously grow our R&D, today we have almost 102 engineers working with us in R&D and we are developing more energy efficient models and wherever required we are taking a help of outside design houses also like in some cases in electronics we have tied up with the Korean design house with inverter PCB boards we had the chip manufacturing company out of Germany helping us in the joint development programs so those are the developmental capabilities, which are ramping up.

On the manufacturing side, we already have a very strong management and strong system there and we are also enhancing our PRPs further for having the proper inventories and other systems on the yield items and idle time systems because we have a very unique SLE programs going in our company in all the plants where we call it loss elimination drives so those are all put in a system now and there is a dashboard where so we are helping those kind of systems where everything is on hands only. So on management side manufacturing, footprint and R&D company is working on all the three parameters. Basically we remain committed to our four pillars growth strategy towards continuous customer expansion, continuous product expansion, increasing wallet share within the existing customers and geography expansion so all the four parameters are taken care of.

**Shrinidhi Karlekar**: Regarding that given the opportunities coming and there is visibility that India is providing at the domestic market will be protected from less imports in that environment do you see competition at the margin will increase from both EMS companies as well as from brand in sourcing as well how do you see, I just want to hear your thoughts on competition perspective?

**Jasbir Singh**: That competition landscape will not change because already 70% air conditioners are manufactured here so it is only 30% which is not getting manufactured here so I think it will depend on which all brands so there are many brands which are actually outsourcing do not have their manufacturing facilities there or who are only trading so those are the companies which will shift here and basically for company like us we will be benefited substantially from that kind of a reform whenever they are announced. I do not think so any competitive landscape will change out of that.

**Shrinidhi Karlekar**: This PCB controller we are hearing that some of the Chinese and Japanese firms are putting plants in India?

**Jasbir Singh**: Chinese and Japanese have already been putting some money here like in motors we have Japanese competitor called Nidec they are one of the largest motor manufacturer of the world, we have Regal Beloit which is fairly large sized company based out of US and in air conditioners also we have seen some Korean component manufacturers already having and already there is a company named Japanese competitor in PCBs already existing, so it all depends on how well you are place in the ecosystem and as I explained to you the reliability cycles and then the increase of share of business so these are some of the products which customers generally do not change once it is approved, but yes we are geared up to for any kind of competitive landscape, we have been innovating ourselves and I believe that I in case some competition comes we term them as a worthy rivals because we learnt from worthy rivals and then you meet your strategy accordingly, but right now I do not see any big change is coming in from that perspective.

**Moderator**: Thank you. Due to time constraint I would now like to hand the conference over to Mr. Jasbir Singh for closing comments.

**Jasbir Singh**: Thank you everybody. With the growth opportunities we foresee on the domestic and the export front along with the government support we believe we are well positioned to capitalize on this opportunity. Thank you everyone for joining us. I hope we have been able to answer all your queries and in case you further require any further details you may please contact us or our investor relations advisors, Strategic Growth Advisors. Thank you very much.

**Moderator**: Thank you. On behalf of Amber Enterprises India Limited that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.