August 19, 2022

Amber Enterprises India Limited: Ratings assigned for bank limits; reaffirmed and withdrawn for issuer rating

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	–	–	[ICRA]AA- (Stable); reaffirmed and withdrawn
Fund-based/ Non-fund Based Working Capital	–	200.00	[ICRA]AA- (Stable)/ [ICRA]A1+ assigned
Unallocated Limits	–	300.00	[ICRA]AA- (Stable)/ [ICRA]A1+ assigned
Total	–	**500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action factors in Amber Enterprise India Limited's (AEIL) strong operating profile, characterised by its established market position as the leading original design manufacturer (ODM) of room air conditioners (RACs) and its components in India, integrated operations, and established relationships with reputed players in the RAC industry. The company has ~70% share of the total outsourced RAC manufacturing business in India. Its clientele includes several of the leading RAC brands, such as Voltas, Panasonic, Daikin, LG, Godrej, Whirlpool, Samsung, Toshiba and Bluestar, among others. In addition, over the years AEIL has backward integrated into manufacturing key RAC components, which has supported its growth and profitability. In the past three years, the company has also diversified into mobility AC applications, where its key clients include the Indian Railways (with whom AIEL enjoys a dominant share of business) and large metro coach manufacturers. The company made two acquisitions in FY2022 (Pravartaka Tooling Services Private Limited and AmberPR Technoplast Private Limited), further focusing on backward integration and synergistic growth opportunities.

The ratings also favourably factor in AEIL's healthy financial profile, characterised by consistent revenue growth (barring FY2021), steady profitability margins, strong liquidity position and comfortable debt coverage indicators. Despite the disruption in operations due to the pandemic related lockdown in Q1 FY2022, which is the peak season for the RAC business in India, the company witnessed a strong recovery in Q4 FY2022, resulting in record high revenues in FY2022 (~Rs. 4,208 crore). The mobility business continues to support consolidated profitability margins, even as the RAC segment faces increasing pressures from raw material price increases. Further, AEIL was able to convert one of the customers from its refrigerant filling business (following the Government of India's (GoI's) ban on importing refrigerant filled ACs in October 2020) into opting for completely built units. The same is likely to provide additional contract manufacturing opportunities to the company over the medium term. AEIL received approvals under the Production Linked Incentive (PLI) scheme announced for the AC component sector—Rs. 100 crore for the electronics division in ILJIN Electronics Private Limited and Rs. 300 crore for the AC components division—which is likely to support its growth prospects in the near to medium term. The company's capex plans for FY2023 remain elevated at ~Rs. 400-500 crore, which would constrain an improvement in the return and coverage indicators in the near term. However, this is likely to be offset by incremental cash flows from its domestic and exports businesses.

The ratings are constrained by AEIL's exposure to the inherent seasonality in the RAC business, leading to volatility in revenues and profitability. Additionally, given the seasonality in the RAC industry, the company requires large working capital for its operations (especially during the fiscal year end, which is also the peak season) to manufacture and distribute its products. It also needs to continually invest in building capacities and new product development to meet customer demands and sustain its competitive advantage. While the former necessitates cautious management of its working capital requirements, the latter impacts the company's return metrices (return on capital employed, RoCE), which remain subdued. Furthermore, AEIL, like other electronics manufacturers, faces high dependence on imported raw materials/ components and is susceptible to any significant supply chain disruptions. Nonetheless, ICRA takes comfort from the company's long track record in the industry, its diversification into non-AC component and mobility application businesses (to offset the RAC business's seasonality) as well as its healthy liquidity position and financial flexibility.

The Stable outlook on the rating reflects ICRA's expectation AEIL is expected to maintain a strong credit profile, supported by its resilient business profile, low external borrowings, comfortable capital structure and healthy liquidity position.

ICRA has withdrawn the issuer rating for AEIL, in accordance with ICRA's policy on withdrawal and at the request of the company.

Key rating drivers and their description

Credit strengths

Established track record and strong market share in domestic RAC industry – AEIL has nearly two decades of experience in the RAC business and an established track record as well as leadership position in the industry. The company generated ~72% of its revenues from the RAC and RAC components business in FY2022 and commands nearly 70% share of the outsourced RAC business. This translates to ~26.6% share in the overall Indian RAC market calculated at manufacturing level. In addition, the company has a dominant market share in the mobility application business and is the largest supplier of roof mounted package unit air conditioners for the Indian Railways. AEIL's product development capabilities have helped it in adding new products as well as maintaining healthy relationship with its clients, resulting in repeat business.

Strong focus on cost competitiveness aided by high level of backward integration – Over the years, AEIL has developed capability to provide end-to-end product development solutions to customers through original design manufacturing. In addition, strategic backward integration initiatives have enabled in-house manufacturing of most critical RAC components, which has enhanced its cost competitiveness. AEIL's products cater to 69% of the total value chain of Indoor Units (IDU) and (Outdoor Units) ODU for inverter SACs. This reflects in healthy and stable operating margins of ~7-8%. While margins were impacted by inflationary pressures on raw material prices and a related lag in their recovery from customers in FY2022, an evolving product mix together with easing of commodity prices is expected to help improve margins over the near to medium term.

Diversified and reputed clientele; favourable outlook for the Indian AC Industry support long-term growth prospects – The company enjoys a clientele of strong and reputed RAC brands like Daikin, LG, Samsung, Toshiba, Bluestar etc. AEIL has medium to high share of business with these companies, while established relationships with them ensure good revenue visibility in the near to medium term. Further, increasing urbanisation, climate change and improving standards of living are expected to provide a huge opportunity for RAC original equipment manufacturers (OEMs) in the domestic market. In addition, favourable regulatory developments in the recent past, i.e., ban on import of completely built RACs with refrigerants (H2 FY2021) and the PLI scheme for the AC component sector (Q1 FY2022), provide strong growth prospects for the industry over the medium to long-term. In mobility applications, AEIL's customers include the Indian Railways and major metro system coach manufacturers in India. Given the GoI's push to upgrade railway infrastructure and improve intra-city public transportation through metro rail development, this business vertical (under AEIL's subsidiary, Sidwal Refrigeration) is also expected to scale up in a healthy manner.

Healthy financial profile characterised by strong liquidity and healthy debt coverage metrices– AEIL's financial profile remains healthy, supported by healthy cash generation from operations, moderately leveraged capital structure (TOL/TNW of 1.8 times and net debt/OPBDITA[1] of 0.8 times as on March 31, 2022), strong liquidity position and comfortable debt coverage

[1] Net Debt excludes earmarked or pledges bank deposits

indicators (interest coverage[2] ratio of 5.9 times as on March 31, 2022). Even as the company's near-term capex commitments remain elevated, a healthy liquidity buffer (cash and investments of Rs. 854 crore as on March 31, 2022, including non-current investments and bank deposits) and expectation of continuation of strong cash flows provides comfort that the company's dependence on debt will remain low. Over the medium term, increasing scale of operations and accruals are expected to keep AEIL's financial profile healthy.

Credit challenges

Highly capital intensive nature of operations–Given the competition in the RAC industry and its inherent seasonality, the company requires large working capital for its operations to produce and distribute its products. It also needs to continually invest in building capacities, new product development (being an ODM) and maintenance. Thus, the return metrics of AEIL remain relatively muted (compared to OEMs) and critically dependant on prudent management of its working capital requirements. However, ICRA takes comfort from the company's track record and its strong liquidity and financial flexibility.

Exposed to inherent seasonality in RAC business – A dominant share of AEIL's revenues emanates from the sale of RACs and its components (>70%) whose demand is seasonal (January to June) and susceptible to changes in weather conditions. This leads to significant variations in working capital requirements during the year and, consequently, impacts the company's cash flows. Nonetheless, the long track record of the company in the industry and its experienced management team provide comfort. Also, over the past few years, the company has diversified into non-AC components (for other consumer durables) and mobility application businesses. An increasing share of these non-seasonal businesses, coupled with scale-up of exports, is expected to mitigate the seasonality risk of the RAC business to an extent over the medium term.

Liquidity position: Strong

AEIL's liquidity remains strong, supported by expectation of healthy cash flows from operations (~Rs. 150-180 crore in FY2023), undrawn sanctioned loans of Rs. 50 crore and buffer in fund-based limits of ~Rs. 140 crore (average, for a period of 12 months ending May 31, 2022). The liquidity is further aided by sizable free cash and liquid investments. The company has repayment obligations of around Rs. 70 crore in FY2023 and elevated capex of about Rs. 400-500 crore. The same are expected to be funded using a mix of internal accruals and term loans; a ramp-up in the scale of operations and ensuing cash flows are likely to help AEIL meet it debt obligations comfortably over the near to medium term.

Rating sensitivities

Positive factors – The ability of the company to achieve a healthy pace of revenue growth with sustainable improvement in profitability, along with greater revenue diversification, would support an improvement in rating. Specific credit metrics that could lead to an upgrade in rating include ROCE of more than 15% on a sustained basis, with the company continuing to maintain a strong credit and liquidity profile.

Negative factors – Negative pressure on the ratings could emanate in case of a sustained increase in working capital intensity, any large debt-funded capex or decline in profitability resulting in material weakening of the company's liquidity and credit metrics. In addition, any loss of business from a larger client, significant slowdown in its key product segments, or supply chain disruption that materially affects its financial performance would also be a negative trigger. Specific credit metrics could include Net Debt/OPBDITA[3] of over 1.5x on a sustained basis.

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[2] Interest coverage ratio= Interest and finance costs/ Operating profit before depreciation, interest, taxes and amortzation

[3] Net Debt excludes earmarked or pledges bank deposits

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Consolidation Policy on withdrawal of credit ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of AEIL. As of March 31, 2022, the company had eight subsidiaries, which are all enlisted in Annexure-2.

About the company

Incorporated in 1990 and headquartered in Gurugram (Haryana), Amber Enterprises India Limited is India's largest contract manufacturer of air conditioners and is primarily engaged in the manufacturing and assembly of RACs and key functional and reliable RAC components. The company currently has 23 manufacturing plants across eight states and serves all the major RAC brands in India, such as Voltas, Blue Star, LG, and Daikin, among others.

AEIL focused on backward integration and forayed into induction motor manufacturing and Printed Circuit Board Assembly (PCBA) manufacturing with the acquisition of PICL India Private Limited in 2013, and Ever Electronics Private Limited and ILJIN Electronics Private Limited n FY2017. In FY2020, AEIL diversified into roof mounted package unit ACs for mobility applications by acquiring Sidwal Refrigeration Industries Limited, which caters to the HVAC requirements of the railways, metro rail, bus, and defense sectors. Further, in FY2022, it acquired majority stake in Pravartaka Tooling Service Private Limited (manufacturer of injection moulding tools and components for other industries, viz., refrigeration and automobiles) and AmberPR Technoplast Private Limited (manufacturer of cross flow fans, a key component in manufacturing RACs).

Key financial indicators (audited)

AEIL Consolidated	FY2021	FY2022
Operating income	3,032.5	4,208.0
PAT	83.3	111.3
OPBDIT/OI	7.6%	6.7%
PAT/OI	2.7%	2.6%
Total outside liabilities/Tangible net worth (times)	1.2	1.8
Total debt/OPBDIT (times)	1.7	3.8
Interest coverage (times)	5.5	5.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Aug 19, 2022	June 22,2021	--	--
1	**Issuer Rating**	Long term	--	--	**[ICRA]AA-(Stable); Withdrawn**	**[ICRA]AA-(Stable)**	**NA**	**NA**
2	**Fund based/ Non Fund based Working Capital**	Long term and short term	200.0	NA	**[ICRA]AA-(Stable)/ [ICRA]A1+**	**NA**	**NA**	**NA**
3	**Unallocated Limits**	Long term and short term	300.0	NA	**[ICRA]AA-(Stable)/ [ICRA]A1+**		**NA**	**NA**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based/ Non Fund based Working Capital	Simple
Unallocated Limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	--	--	--	--	[ICRA]AA- (Stable); withdrawn
NA	Fund/Non Fund-based Working Capital	NA	NA	NA	200.0	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	Unallocated limits	NA	NA	NA	300.0	[ICRA]AA-(Stable)/ [ICRA] A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
Amber Enterprises India Limited	Rated entity	Full Consolidation
PICL (India) Private Limited	100.0%	Full Consolidation
IL JIN Electronics (India) Private Limited	70.0%	Full Consolidation
Ever Electronics Private Limited	70.0%	Full Consolidation
Appserve Appliance Private Limited	100.0%	Full Consolidation
Sidwal Refrigeration Industries Private Limited	100.0%	Full Consolidation
AmberPR Technoplast India Private Limited	73.0%	Full Consolidation
Pravartaka Tooling Services Private Limited	60.0%	Full Consolidation
Amber Enterprises USA Inc	100.0%	Full Consolidation

Source: Company Annual Report FY2022
Note: ICRA has taken a consolidated view of the parent (AEIL) and its subsidiaries while assigning the ratings.

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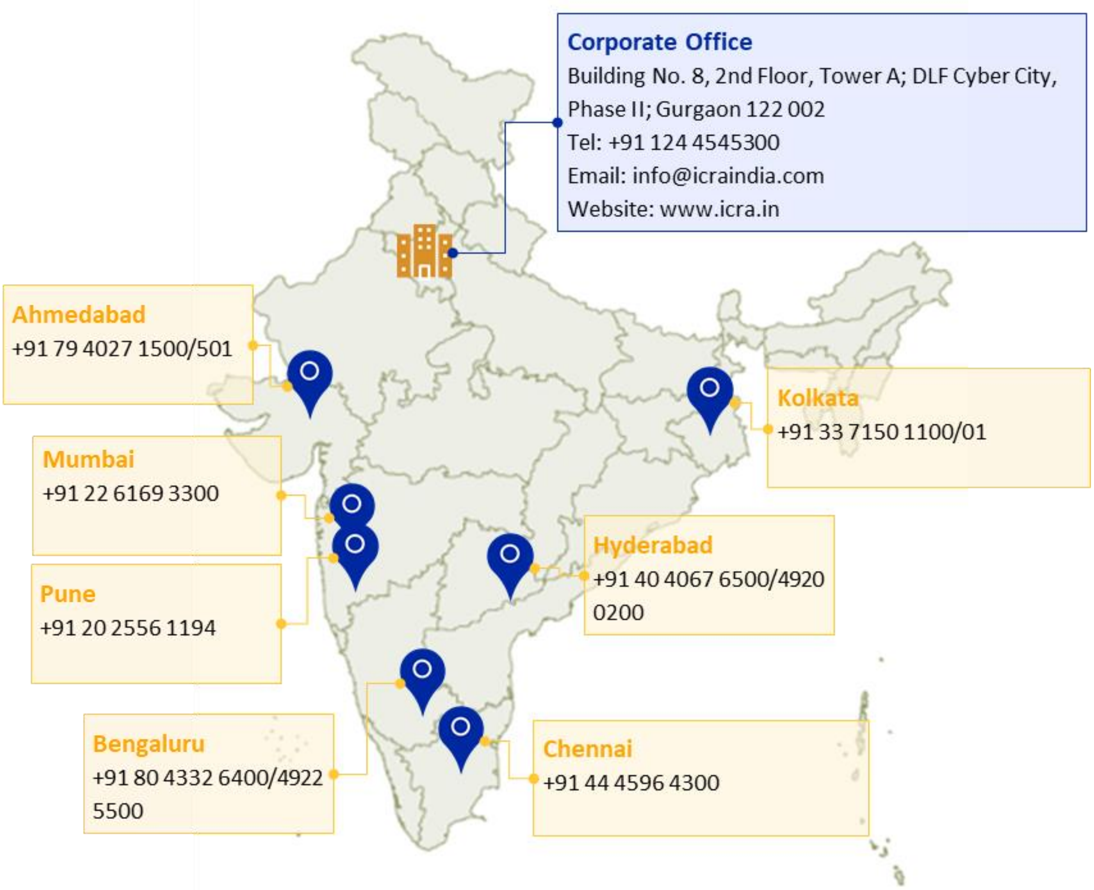

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