November 30, 2023

Amber Enterprises India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term/Short-Term-Fund Based/Non-Fund Based-Working Capital	475.00	475.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Long-Term/Short Term-Unallocated Limits	25.00	25.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Total	**500.00**	**500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in ICRA's opinion that Amber Enterprise India Limited (AEIL) is expected to maintain its strong operating profile, characterised by its established market position as one of the leading original design manufacturers (ODM) of room air-conditioners (RACs) and its components in India, integrated operations and its established relationships with reputed players in the RAC industry. Its clientele includes several of the leading RAC brands, such as Voltas, Panasonic, Daikin, LG, Godrej, Whirlpool, Samsung, Toshiba and Bluestar, among others. Additionally, over the years AEIL has been backward integrating into manufacturing key RAC components, which has supported its growth and profitability. The company has also been diversifying into mobility AC applications, where its key clients include the Indian Railways and large metro coach manufacturers. The ratings also favourably factor in AEIL's healthy financial profile, characterised by consistent revenue growth (with the exception of FY2021), steady profit margins, strong liquidity position and comfortable debt coverage indicators.

The ratings are, however, constrained by AEIL's exposure to the inherent seasonality in the RAC business, leading to volatility in revenues and profitability. The RAC season has been weak in the current fiscal marred by unseasonal rains and consequent tepid demand, which resulted in increased stockpile in the industry. An expected recovery in the next season should lead to better operational performance and enhance the company's ability to benefit from its integrated operations. 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 metrics (return on capital employed, RoCE), which remain subdued. The company has incurred a sizeable capex in the past few years and plans to incur Rs 350-380 crore in the current fiscal, which will be partly debt-funded, returns of which are expected to be realised over time. However, the company's endeavour towards diversification and venturing into other industries through its electronics and mobility segment is also expected to result in reduced dependence on the RAC segment in the medium-to-long term. Increased revenue from mobility business should further aid the company's margins while the electronics division is expected to support the volume-based earnings expansion.

Furthermore, AEIL, like other consumer durables and electronics manufacturers, faces high dependence on imported raw materials/ components and is susceptible to forex fluctuations and significant supply chain disruptions. It is also exposed to raw material price volatility as it is able to pass on the increased prices with a lag.

The Stable outlook on the rating reflects ICRA's expectation that AEIL will maintain a strong credit profile, supported by its resilient business profile, comfortable capital structure and healthy liquidity position.

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 a leadership position in the industry. The company generated ~73% of its revenues from the RAC and RAC components business in FY2023 and commands nearly 70% share of the outsourced RAC business. This translates to ~29% share in the overall Indian RAC market at a manufactured cost. 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 relationships 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 its capabilities to provide end-to-end product development solutions to customers through original design manufacturing or ODM. In addition, strategic backward integration initiatives have enabled in-house manufacturing of the most critical RAC components, which enhanced its cost competitiveness. This reflects in healthy and stable operating margins of ~7-8%. While margins were affected by inflationary pressures on raw material prices and a corresponding delay in their recovery from customers in FY2022 and FY2023, there has been an improvement in H1 FY2024. This is attributed to the benign commodity prices, further assisted by a change in the revenue mix to a certain extent. An evolving product mix coupled with the easing of commodity prices is expected to help improve the margins over the near-to-medium term. The company is also expected to benefit by way of production-linked incentives (PLI).

Diversified and reputed clientele; favourable outlook for the Indian AC Industry supports long-term growth prospects – The company enjoys a clientele of strong and reputed RAC brands such as Daikin, LG, Samsung, Toshiba, and Bluestar among others. AEIL has medium-to-high share of business with these companies, while established relationships with them ensure good revenue visibility in general. Further in the long term, increasing urbanisation, climate change and improving standards of living are expected to be growth drivers and provide opportunities for RAC original equipment manufacturers (OEMs) in the domestic market. In addition, favourable regulatory developments in the recent past, i.e. ban on the import of completely built RACs with refrigerants and the PLI scheme for the AC component sector, 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 Government of India's (GoI) push to upgrade railway infrastructure and improve intracity 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. The company's foray into other industries, such as automotive and telecom, to be catered by its electronics division also augurs well, given the healthy margin profile in comparison to the consumer durables industry.

Healthy financial profile characterised by strong liquidity and stable profit margins; debt coverage metrics expected to improve gradually – AEIL's financial profile remains healthy, supported by healthy cash generation from operations, comfortable capital structure with gearing of 0.4 times and a strong liquidity position. AEIL's operating margins improved in H1 FY2024 to 7.3% in comparison to 5.3% in H1 FY2023 largely on the back of softening in the input prices and evolved product mix. The profit margins also improved compared to 6.6% in FY2023.

AEIL's coverage indicators have moderated in FY2023 (TOL/TNW of 2.2 times, net debt/OPBDITA[1] of 1.6 times and interest coverage[2] ratio of 4.1 times as on March 31, 2023, from 1.8 times, 0.8 times and 5.9 times, respectively as on March 31, 2022). This is due to the company's gradual earnings growth while incurring a sizeable capex that was partly debt-funded, leading to elevated debt levels. An increase in earnings driven by the realisation of backward integration and diversification benefits, coupled with the expectation of a normal RAC season in CY2024, should result in an improvement in coverage metrics in the

[1] *Net Debt excludes earmarked or pledges bank deposits*

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

medium term. AEIL's operations are further supported by a healtairhy liquidity buffer (cash and investments of Rs. 731 crore as on March 31, 2023, including non-current investments and bank deposits) and the expectation of continuation of strong cash flows. 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 (as an ODM) and maintenance. Thus, AEIL's return metrics remain relatively muted (compared to OEMs) and critically dependent on prudent management of its working capital requirements. ICRA notes that the company's capex quantum has moderated as compared to the previous years. 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 is attributed to the sale of RACs and its components (>70%) whose demand is seasonal (January to June, i.e Q1 and Q4 of a fiscal) 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. In H1 FY2024, the company witnessed subdued demand on account of unseasonal rains and uncharacteristically cooler first half of the summer, which further led to nominal de-growth in the company's RAC division. Therefore, the business remains vulnerable to the vagaries of the weather, which remains a concern. 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 the scale-up of exports, is expected to mitigate the seasonality risk of the RAC business to an extent over the medium term.

Exposure to forex fluctuation risks and raw material volatility to an extent – The company's profitability remains exposed to fluctuations in foreign currencies as ~30% of the total purchases are through imports. The company hedges a part of its payables. However, the company passes on the increased prices to its buyers with a quarterly lag, but the company absorbs the losses to an extent in case there is a sharp adverse fluctuation in the currency. Similarly, the company also faces the risk of adverse variability in the raw material prices, which is also typically passed on to the clients with a quarterly lag.

Liquidity position: Strong

AEIL's liquidity remains strong, supported by the expectation of healthy cash flows from operations (~Rs. 200-220 crore in FY2024), and a buffer in fund-based limits of ~Rs. 150 crore (average, for a period of 12 months ending September 30, 2023, for the standalone business). The liquidity is further aided by sizable free cash and liquid investments. The company has significant repayment obligations of around ~Rs. 116 crore in FY2024 and capex of Rs. 350-380 crore. The same are expected to be funded through 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 its 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 the ratings. Specific credit metrics that could lead to a rating upgrade include RoCE of more than 15% on a sustained basis, with the company continuing to maintain a strong credit and liquidity profile.

Negative factors – Pressure on the rating could arise from a sustained increase in working capital intensity, any large debt-funded capex or a 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 disruptions that materially affect its financial performance would also be a negative trigger. Specific credit metrics could include net debt/OPBDITA (net debt excludes earmarked or pledged bank deposits) of over 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of AEIL. As of March 31, 2023, 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 involved in the manufacture 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. The plant network has expanded to 29 on a consolidated basis, as on date.

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, Ever Electronics Private Limited and ILJIN Electronics Private Limited in FY2017. In FY2020, AEIL diversified into the 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 defence sectors. Further, in FY2022, it acquired a 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/unaudited)

AEIL Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	4,208.0	6,936.1	2629.1
PAT	111.3	163.8	41.0
OPBDIT/OI	6.7%	6.6%	7.3%
PAT/OI	2.6%	2.4%	1.6%
Total outside liabilities/Tangible net worth (times)	1.8	2.2	1.3
Total debt/OPBDIT (times)	3.8	3.2	4.1
Interest coverage (times)	5.9	4.1	2.3

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Nov 30,2023	Nov 14, 2022	Aug 19, 2022	June 22, 2021	--
1	**Fund based/ Non Fund based Working Capital**	Long-Term/Short Term	475.00	--	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	--	--
2	**Unallocated Limits**	Long-Term/Short Term	25.00	--	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	--	--
3	**Issuer Rating**	Long Term	-	--	--	--	[ICRA]AA-(Stable); Withdrawn	[ICRA]AA-(Stable)	--

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based/ Non Fund based Working Capital	NA	NA	NA	475.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	25.00	[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	Ownership	Consolidation Approach
Amber Enterprises India Limited	Rated Entity	Full Consolidation
PICL (India) Private Limited	100.00%	Full Consolidation
IL JIN Electronics (India) Private Limited	70.00%	Full Consolidation
Ever Electronics Private Limited	70.00%	Full Consolidation
Appserve Appliance Private Limited	100.00%	Full Consolidation
Sidwal Refrigeration Industries Private Limited	100.00%	Full Consolidation
AmberPR Technoplast India Private Limited	100.00%	Full Consolidation
Pravartaka Tooling Services Private Limited	60.00%	Full Consolidation
Amber Enterprises USA Inc	100.00%	Full Consolidation

Source: Company; as on September 30, 2023; Note: ICRA has taken a consolidated view of the parent (AEIL) and its subsidiaries while assigning the ratings

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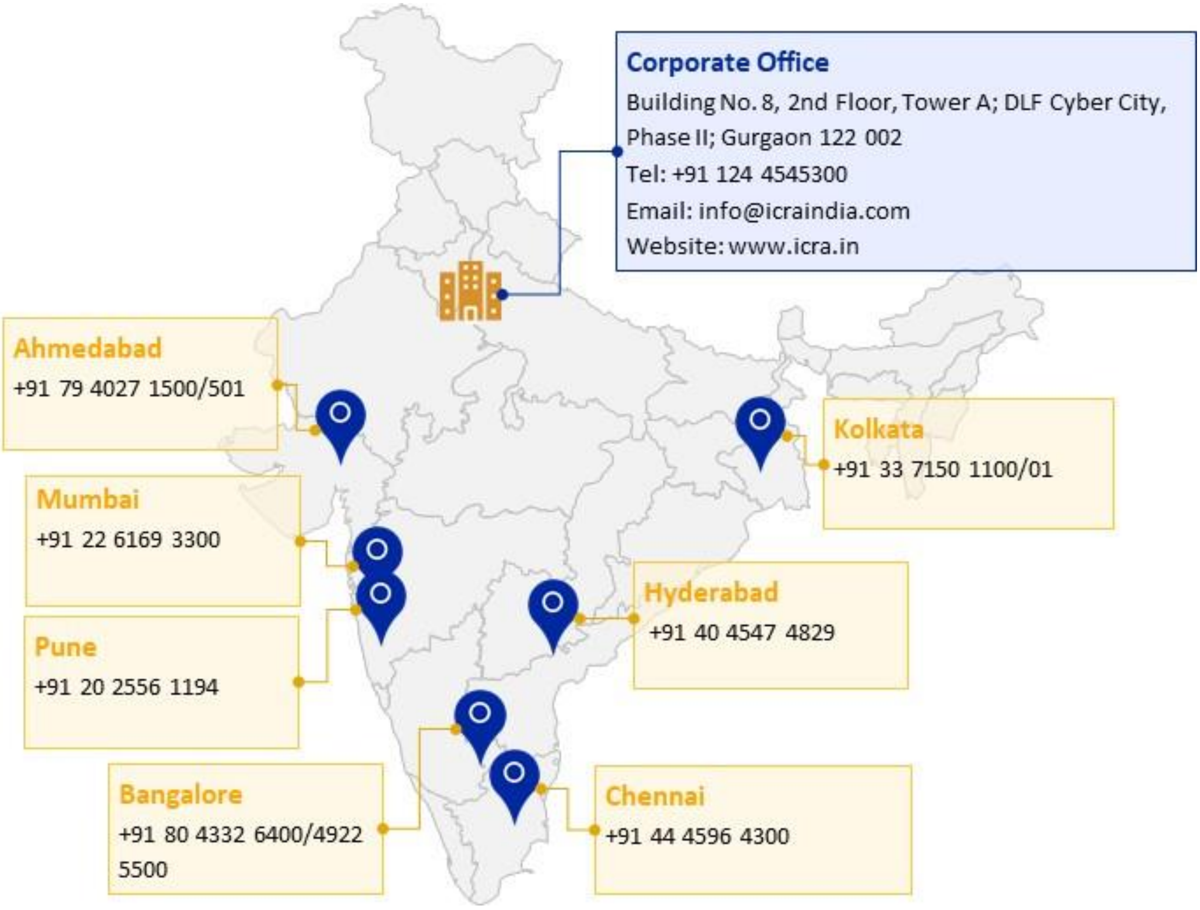

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