August 06, 2024

Amber Enterprises India Limited: Ratings reaffirmed; Rated amount enhanced

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	665.00	[ICRA]AA- (Stable)/[ICRA]A1+; Reaffirmed and assigned for enhanced amount
Long-term/short-term- Unallocated limits	25.00	100.00	[ICRA]AA- (Stable)/[ICRA]A1+; Reaffirmed and assigned for enhanced amount
Total	**500.00**	**765.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmed ratings factor 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. Additionally, the entity's integrated operations and established relationships with reputed players in the RAC industry provide further comfort. Its clientele includes several leading RAC brands, such as Voltas, Panasonic, LG, Godrej, Whirlpool, Samsung, Toshiba and Bluestar, among others. Moreover, AEIL has been backward integrating over the years to manufacture key RAC components, which has supported its growth and profitability.

However, some OEMs have recently started to opt for in-house finished goods (FG) assembly, which impacted AEIL's top line in the previous two quarters, and the trend is expected to continue going forward. To reduce its dependence on the RAC segment, the company has also been diversifying into other segments, such as mobility AC applications, where its key clients include the Indian Railways and large metro coach manufacturers.

The company has also diversified and invested in building its electronics segment, which has been enhanced by the recent acquisition of Ascent Circuits Private Limited (ACPL), executed in February 2024 for a consideration of Rs. 311 crore. ACPL's acquisition may favourably impact the company's top line and margins. The ratings also favourably factor in AEIL's healthy financial profile, supported by improving profit margins and a strong liquidity position.

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 in FY2024 was adversely impacted by unseasonal rains, which led to tepid demand and resulted in an increased stockpile in the industry by the end of H1 FY2024. While the performance recovered to a certain extent in H2 FY2024, it remained impacted by the in-house assembly operations undertaken by some OEMs. In the current fiscal, improvement in performance is expected due to the intense summer witnessed in Q1 FY2025. Such a factor may lead to better operational performance and benefit the company owing to its integrated operations.

In Q1 FY2025, AEIL witnessed ~41% YoY revenue growth with an improved operating profit margin OPM of 8.2%. 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. The company consistently invested in building capacities and new product developments 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.

AEIL incurred a sizeable capex in the past few years, including acquisitions and plans to incur Rs. 350-380 crore towards capex in the current fiscal, which will be partly debt-funded, and the consequent returns are expected to be realised over time. AEIL's diversification process through several investments in the electronics and mobility segment may result in reduced dependence on the RAC segment in the medium-to-long term. However, it may also constrain its return metrics, as some of these investments bear long gestation projects, which may take time to generate returns and may also require further debt-backed cash infusions, impacting coverage indicators going forward. The increased revenue from the mobility business and the full impact of ACPL's acquisition should aid the company's margins in FY2025. However, ICRA notes that investment towards long-gestation period projects may continue to constrain the return metrics and will remain a key monitorable.

Furthermore, AEIL, like other consumer durables and electronics manufacturers, has a high dependence on imported raw materials/ components and is susceptible to forex fluctuations as well as significant supply chain disruptions. It is also exposed to raw material price volatility as the company passes on the increased prices to the customers 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, an established track record and a leadership position in the industry. The company generated ~75% of its revenues from the RAC and RAC component business in FY2024 and commands ~70% share of the outsourced RAC business. This translates to a 26-29% share in the overall Indian RAC market at the factory cost 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 helped it in adding new products, as well as maintaining healthy relationships with its clients, resulting in repeat business.

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 Voltas, LG, Samsung, Toshiba, and Bluestar among others. AEIL has a medium-to-high share of business with these companies, while established relationships with them ensure good revenue visibility. While there is a decline in FG assembly orders from some OEMs, the component business remains stable and with the expected industry growth, the overall top line from RAC segment is projected to grow 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 OEMs in the domestic market. In addition, favourable regulatory developments in the recent past, i.e. the import ban on entirely built RACs with refrigerants and the PLI scheme for the AC component sector, have provided 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.

Strong focus on cost competitiveness, aided by backward integration and diversification for higher margins products/segment, augurs well for the company going forward – Over the years, AEIL has developed its capabilities to provide end-to-end product development solutions to customers through original design manufacturing (ODM). In addition, strategic backward integration initiatives have enabled in-house manufacturing of the most critical RAC components, which enhanced the company's cost competitiveness. This is reflected in the healthy and stable operating margins of ~7-8% in FY2023 and FY2024. The margins were affected by inflationary pressures on raw material prices and a corresponding delay in cost recovery from customers in FY2022 and FY2023. However, the margins improved in FY2024, which is expected to remain stable in FY2025. This improvement is attributed to benign commodity prices, further assisted by a change in the revenue mix to a certain extent and in end-use industries, particularly in the electronics segment. 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 through production-linked incentives (PLI). Going forward, ACPL's acquisition is expected to enhance both the top and bottom lines for AEIL's electronics segment, which is a high-margin business of the company, manufacturing PCB boards.

Healthy financial profile characterised by strong liquidity and improving profit margins – AEIL's financial profile remains healthy, supported by a comfortable capital structure with a net gearing of 0.4 times, improving profitability and a strong liquidity position. AEIL's operating margins improved in FY2024 to 7.5% in comparison to 6.6% in FY2023, primarily due to the softening of input prices and evolving product and end-user industry mix. The profit margins have further improved to 8.2% in Q1 FY2025. While the company's financial risk profile is supported by improving profitability and strong liquidity, the coverage indicators remain vulnerable to the consistently increasing debt and interest levels. Subsequently, AEIL's coverage indicators have moderated in FY2024 (interest coverage of 3 times and DSCR of 1.7 times as on March 31, 2024, from 4.1 times, 2.0 times respectively, as on March 31, 2023).

However, at a net level, owing to healthy cash levels at the end of March 2024, the net debt/OPBDITA[1] improved to 1.4 times from 1.6 times as on March 31, 2024. An increase in earnings, driven by backward integration and diversification benefits, coupled with the expectation healthy season in FY2025, should result in an improvement in coverage metrics in the medium term. AEIL's operations are further supported by a healthy liquidity buffer (cash and investments of Rs. 811 crore as on March 31, 2024, including current investments and bank deposits) and the expectation of continuation of strong cash flows. Over the medium term, the 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 capex. 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 compared to the previous years. However, ICRA takes comfort from the company's track record and its strong liquidity and financial flexibility. Also, ICRA notes that AEIL's debtor levels have continuously reduced from FY2022 to FY2024.

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, impacting the company's cash flows. In H1 FY2024, the company witnessed subdued demand on account of unseasonal rains and uncharacteristically, a cooler first half of the summer, which led to a nominal decline in the RAC division's revenues. However, a strong recovery was made thereafter in Q4 FY2024 and Q1 FY2025, when demand improved on the back of the early onset of summer and intense heatwaves witnessed, particularly in the northern part of India.

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 it absorbs the losses to an extent in case of 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.

Increasing investments in projects with higher gestation periods may constrain returns in near to medium term –While the continued diversification towards mobility, electronics and consumer durables segment may reduce AEIL's dependence on the

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

RAC segment, it may also weaken company's return metrics as some investments involve long-gestation projects, which typically take time to generate returns. Also, some of the investments may require further capital requirements, which may be funded through debt, thereby adversely impacting AEIL's coverage metrics at a consolidated level. Therefore, the developments of such projects and fresh investments will continuously remain a key rating monitorable.

Liquidity position: Strong

AEIL's liquidity remains strong, supported by the expectation of healthy fund flows from operations and a buffer in fund-based limits of ~Rs. 430 crore (average, for a period of 13 months ending June 30, 2024, for the standalone business). The liquidity is further aided by the sizeable free cash and liquid investments, which stood at Rs. 811 crore as on March 31, 2024. The company has significant repayment obligations of ~Rs. 159 crore and ~Rs. 238 crore in FY2025 and FY2026, respectively, and the annual capex of Rs. 350-380 crore. The same is 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 company's ability 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 ratings upgrade include RoCE of more than 15% on a sustained basis, with the company maintaining 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 that could exert pressure on the ratings 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 ratings, ICRA has considered the consolidated financials of AEIL. As on March 31, 2024, the company had eight subsidiaries, which are all enlisted in Annexure-II.

About the company

Incorporated in 1990 and headquartered in Gurugram (Haryana), Amber Enterprises India Limited is India's largest contract manufacturer of air conditioners. It primarily manufactures and assembles RACs and key functional and reliable RAC components. At present, the company 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 30 on a consolidated basis, as on March 31, 2024.

AEIL focused on backward integration and forayed into the manufacturing of induction motor and printed circuit board assembly (PCBA), 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). AEIL has further increased its stake recently in IL JIN and Ever and acquired a full stake in AmberPR. In February 2024, the company acquired a 60% stake in ACPL for a total consideration of Rs. 311 crore.

Key financial indicators (audited)

AEIL Consolidated	FY2023	FY2024
Operating income	6,936.1	6,735.1
PAT	163.8	141.8
OPBDIT/OI	6.6%	7.5%
PAT/OI	2.4%	2.1%
Total outside liabilities/Tangible net worth (times)	2.2	2.1
Total debt/OPBDIT (times)	3.2	3.0
Interest coverage (times)	4.1	3.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022
				Aug 06, 2024	Feb 20, 2024	Nov 30, 2023	Nov 14, 2022	Aug 19, 2022	June 22, 2021
1	**Fund based/ Non fund based working capital**	Long-term/ short-term	665.00	**[ICRA]AA-(Stable)/ [ICRA]A1+**	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	--
2	**Unallocated limits**	Long-term/ short-term	100.00	**[ICRA]AA-(Stable)/ [ICRA]A1+**	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	--
3	**Issuer rating**	Long-term	-	**--**	--	--	--	[ICRA]AA-(Stable); Reaffirmed and 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	665.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	100.00	[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
Ascent Circuits Private Limited	60.00%	Full Consolidation

Source: Company; As on March 31, 2024

ANALYST CONTACTS

Shamsher Dewan
91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Mythri Macherala
+91 80 4332 6407
mythri.macherala@icraindia.com

Nishant Misra
+91 124 4545 862
nishant.misra@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches