June 22, 2021

Amber Enterprises India Limited: Issuer rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	--	[ICRA]AA- (Stable); assigned
Total	--	

**Instrument details are provided in Annexure-1*

Rationale

The rating assigned to Amber Enterprises India Limited (AEIL) factors in its strong operating profile, characterised by its established market position as the one of the largest original design manufacturers (ODMs) 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 many top RAC brands, such as like Voltas, Panasonic, Daikin, LG, Godrej, Whirlpool, Samsung, Toshiba, 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 two 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 rating assigned also factors 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 FY2021, which is the peak season for the RAC business in India, the company witnessed a strong recovery in Q4 FY2021, resulting in record high revenues for the quarter. The mobility business was not as sharply impacted by the pandemic and supported consolidated profitability margins.

AEIL was able to add eight new customers for its refrigerant filling business, following the ban imposed by the Government of India (GoI) on import of refrigerant filled air conditioners in October 2020. The same is likely to provide additional contract manufacturing opportunities to the company over the medium term. The Production Linked Incentive (PLI) scheme announced for the AC component sector is also a long-term positive policy initiative to push domestic value addition in the RAC industry and is likely to support AEIL's growth prospects. Even as operations in FY2022 will likely remain impacted by the second Covid-19 wave (May-June 2021 sales were impacted), the company's medium term growth prospects remain strong.

The rating, is, however, constrained by AEIL's exposure to the inherent seasonality in the RAC business, leading to volatility in revenues and profitability. Additionally, given the high competition 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 produce 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) and its healthy liquidity position and financial flexibility.

While the possibility of resurgence of Covid-19 keeps the near-term revenue visibility uncertain, the company has planned sizable capex of Rs. 300-350 crore over the next two years for setting up two greenfield plants. However, the management's prudent strategy of raising equity funds of Rs. 400 crore in FY2021 (from qualified institutional investors in September 2020) to fund these expansion plans will help it maintain a conservative capital structure and provide comfort. ICRA understands that the company intends to apply for the manufacturing of about five RAC components under the PLI scheme. If approved, this could mean incremental capex commitments (and possible incentive inflows) over the medium term. ICRA would continue to monitor the developments around the scheme and AEIL's plans in this regard.

The Stable outlook on the rating reflects ICRA's expectation that despite the adverse impact of Covid-19 in the near-term, 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.

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 has an established track record as well as leadership position in the industry. The company generated ~55% of its revenues from the RAC business in FY2021 and commands nearly 70% share of the outsourced RAC business. This translates to ~24% share in the overall Indian RAC market. 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 main line 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.

Diversified and reputed clientele; favourable outlook for the Indian RAC industry and mobility applications support long-term growth prospects - The company's clientele comprises some strong and reputed RAC brands like like Voltas, Panasonic, Daikin, LG, Godrej, Whirlpool, Samsung, Toshiba, Bluestar etc. AEIL has medium to high share of business from these companies, with established relationships, ensuring good revenue visibility in the near to medium term. Further, increasing urbanisation, climate change and improving standard of living are expected to provide a huge market opportunity for RAC OEMs in the domestic market. In addition, favourable regulatory developments over the past few months, 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.

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 has enabled in-house manufacturing of most critical RAC components, which has enhanced its cost competitiveness. This reflects in healthy and stable operating margins of ~8%. With its changing product mix and ramp up of its high margin mobility application business, margins are expected to improve over the medium term.

Healthy financial profile characterised by moderate leverage 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 1.2 times as on March 31, 2021), strong liquidity position and comfortable debt coverage indicators (interest coverage ratio of 5.4 times as on March 31, 2021). The company raised Rs. 400 crore in FY2021 through a QIP, which will help it fund its near-term capex commitments to a large extent and limit its dependence on debt. 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 sale of RACs and its components (65-70%), demand for which 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 experienced management team provides 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.

Uncertain demand environment due to Covid-19 related restrictions - AEIL's revenues and profits are likely to be adversely impacted in Q1 FY2022 (the peak sales quarter for the company) due to the localised restrictions to prevent the spread of the second wave of Covid-19. The possibility of a subsequent surge in cases could lead to demand related uncertainties that could impact the sector's performance in FY2022. Nonetheless, ICRA draws comfort from the company's strong market position, which is expected to support revenue growth when the economy regains normalcy.

Liquidity position: Strong

AEIL's liquidity is expected to remain **strong**, supported by healthy cash generation from operations, sizable free cash balances of ~Rs. 345 crore (excluding non-current investments of ~Rs. 55 crore), undrawn GECL loans of ~Rs. 15 crore and undrawn fund-based working capital limits (nearly Rs. 200 crore) as on March 31, 2021. The company has repayment obligations of around Rs. 35 crore in FY2022. It proposes to undertake significant capex in FY2022-FY2023 using internal accruals and QIP funds, which will deplete the existing cash buffer. However, the scale of operations and cash flows are also expected to remain healthy, which will keep the liquidity comfortable. ICRA also takes cognisance of the significant financial flexibility enjoyed by AEIL, emanating from its large asset base, conservative capital structure and access to capital markets.

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 include net Debt/OPBDITA of over 1.5x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Consolidation and Rating approach](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA considers the consolidated financials of AEIL. As of March 31, 2021, the company had five subsidiaries, which are all enlisted in Annexure-2.

About the company

Incorporated in 1990, AEIL is primarily engaged in the design and contract manufacturing of RACs, commercial ACs, and critical and reliability functional components of RACs, such as heat exchangers, motors, printed circuit board assembly (PCBAs) and condensers. The company (along with its subsidiaries) also manufactures components for other consumer durables and automobiles, such as case liners for refrigerators, plastic extrusion sheets for the consumer durables and automobile industries, sheet metal components for microwaves and washing machine tub assemblies, etc. The company serves leading RAC brands in the Indian market and enjoys a strong share of business with many of them. AEIL has also diversified into roof mounted package unit air conditioners for mobility applications by acquiring Sidwal Refrigeration in FY2020, which caters to the heating, ventilation, and air conditioning (HVAC) requirements of the railways, metro rails, buses, and defence sectors.

AEIL was promoted by Mr. Kartar Singh in 1990. Its day-to-day operations are currently overseen by his sons, Mr. Jasbir Singh, and Mr. Daljit Singh. The company has 15 manufacturing plants at present, spread across six states in India. These are at Dehradun (three units; Uttarakhand), Rajpura (Punjab), Faridabad (three units; Haryana), Gautam Nagar (three units; Uttar Pradesh), Pune (three units; Maharashtra) and Jhajjar (two units; Haryana). It is in the process of establishing two more greenfield plants, one each near Pune and Chennai. AEIL has been listed on the National Stock Exchange and Bombay Stock Exchange since January 2018.

Key financial indicators (audited)

Consolidated	FY2020	FY2021*
Operating Income (Rs. crore)	3,966	3,031
PAT (Rs. crore)	164	83
OPBDIT/OI (%)	8.3%	7.3%
PAT/OI (%)	4.1%	2.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.2
Total Debt/OPBDIT (times)	1.2	1.7
Interest Coverage (times)	7.7	5.4

Source: Company Annual Reports; ICRA research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

**Limited Audited results*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of May 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jun 22, 2021	NA	NA	NA
1	Issuer rating	Long-term	NA	NA	[ICRA]AA- (Stable)	NA	NA	NA

Complexity level of the rated instruments

Instrument	Complexity Indicator
--	Not applicable

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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	--	--	--	--	[ICRA]AA-(Stable)

Annexure-2: List of entities considered for consolidated analysis

Company Name	AEIL 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

Source: *Company*

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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

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