



“Amber Enterprises India Limited
Q1 FY2019 Results Conference Call”

August 07, 2018



**MANAGEMENT: MR. JASBIR SINGH - CHAIRMAN & CHIEF EXECUTIVE
OFFICER - AMBER ENTERPRISES INDIA LIMITED
MR. DALJIT SINGH - MANAGING DIRECTOR - AMBER
ENTERPRISES INDIA LIMITED
MR. SUDHIR GOYAL – CHIEF FINANCIAL OFFICER -
AMBER ENTERPRISES INDIA LIMITED**



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Moderator: Ladies and gentlemen good day and welcome to Amber Enterprises India Limited Q1 FY2019 Results Conference Call. 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 to Mr. Jasbir Singh, Chairman and CEO of Amber Enterprises India Limited. Thank you and over to you Sir!

Jasbir Singh: Good evening everyone and a very warm welcome to our Q1 FY2019 earnings conference call. Today I am joined by Mr. Daljit Singh, Managing Director, Mr. Sudhir Goyal – CFO and SGA Strategic Growth Advisors, our investor relation advisors. We have uploaded our updated result presentation on the exchanges and I hope everybody had an opportunity to go through the same. I would just like to go through the industry update now.

On the industry front, April and May were hit by unseasonal rains across the country while June was better than the previous two months, but it has not been enough to offset the decline seen in the previous two months. Unseasonal rains have led to inventory buildup across brands, which had an impact on secondary and primary sales of room air conditioners; however, we are very confident that industry should pickup for the coming quarters on back festive season and the seasonal shift may also play a major role going forward. These seasonal shifts may have impact on the quarters, but on the full year basis, industry should do well. Due to the inventory buildup across brands and low primary and secondary sales, our volumes were also impacted. On Y-o-Y basis we observed a dip of 3.5% in our volume in AC units whereas as per estimates industry degrew by around 10 to 12%, which is almost an outperformance as compared to the industry.

Looking at the order book in hand, we are very confident of our growth on full year basis, and we will continue to outperform the industry. Another important factor to be considered here is the implementation of GST from July 2017 last year, which led to preponement of the sales giving a higher base effect to the volumes and revenue in Q1 FY2018.

I will now take you through the operational numbers. In the last year we had anticipated increase in demand of our product along with the changing preference from the customers for inverters instead of fixed speed air conditioners. Inverter air conditioners had a share of



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almost 40% in FY2018 according to our estimates. This should be touching close to about 55% to 60% by year-end FY2019. We are one of the largest PCB manufacturing company in India for room air conditioners by our investments in IL JIN and Ever Electronics. This will give us an extra edge on increasing our revenues and margins going forward.

We have reported all our numbers on standalone basis. The total revenue for Q1 FY2019 stood at Rs.602 Crores as against Rs. 624 Crores for the corresponding quarter last year after adjusting for Excise and GST impact.

Overall revenue degrew by 3.5% whereas we have seen a growth in revenue of 8% and 31% in our air conditioner component business and non-air conditioner component segment respectively. Non-AC components grew from 63 Crores in Q1 FY2018 to 83 Crores in Q1 FY2019 and AC component grew to 53 Crores in Q1 FY2019 as compared to 49 Crores. In volume terms, we have sold approximately 5.5 lakh units in Q1 FY2019 as compared to 5.7 units in Q1 FY2018, which is approximately down to about 3.5%; however, our full year outlook remains the same with the robust order book in hand and new customer additions.

EBITDA for the quarters stood at 61 Crores as compared to 56 Crores for the corresponding quarter last year, EBITDA margins are about 10% for this quarter almost 100 BPS higher on year-on-year basis. Since we are witnessing growth in our AC and non-AC component, we are confident of improving margin trajectory going forward.

Other incomes include around 5.6 Crores of forex loss of which 4.21 is realized and 1.45 is unrealized. PAT for the quarter is Rs.29 Crores as compared to Rs.26 Crores for the corresponding quarter last year. This is due to reduction in interest cost due to repayment of Debt from the IPO proceeds. PAT margin stood at 4.8% for this quarter, almost 70 BPS higher than the Q1 FY2019.

On the way forward, we would like to state the three agendas. The first one is acquisitions, with the help of our acquisitions Ever and IL JIN we are confident and ready for the future with the smart future ready technology for inverter air conditioners, you will see a full year impact for IL JIN and half year impact of Ever in the revenues and profitability. Secondly, New customers and products; we have added new customers, strengthened our existing relationships increased our product offerings by way of strong R&D in the last year. We shall continue our focus to keep on expanding these in the future as well. This will help us to grow faster than the industry in the years to come.



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On the operating leverage, we see an increase in volumes for our products and investments that we have done in the past, will see better returns. Increased capacity utilization will lead to operating leverage playing out, leading to better profitability.

To conclude we would like to say this company enduring commitment to outperform the industry growth while transforming topline into a health bottomline results. With this I open the floor for discussion.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Good evening, Jasbir. Jasbir you mentioned that there has been forex loss of almost Rs.5.62 this quarter, what is the exact nature of this loss and how do we exactly hedge against such losses?

Jasbir Singh: So the nature of the loss is due to the import content, which we do and the dollar has moved from close to about 66 to 69 in this quarter and that is why this loss has been recognized. However, as we informed earlier also that moving forward this loss is on the quarterly lag basis, this is passed on to the customers, so in the next quarter costing which are happening is on the newer rate of 69 and above.

Aditya Bhartia: So that is pertained to creditors that are outstanding at the end of the quarter or it includes the impact of rupee depreciation on sales that we made during the quarter?

Jasbir Singh: So this includes the payment, which we have done in the quarter, and the corresponding M2M impact on the June 30, 2018.

Aditya Bhartia: Okay it is the combination of both.

Jasbir Singh: Yes.

Aditya Bhartia: Understood. And you mentioned that volumes in this particular quarter would have declined by around 3.5% and similar has been I guess the revenue decline as well, so with higher proportion of inverters getting sold, one would have expected realizations to be going up especially with new energy efficiency norms also coming in, is that something that is not really playing out as yet?

Jasbir Singh: No, it is not like that in fact if you see our AC components have grown by 8%, which is a reflection of that only and normally what we do is in the inverter air conditioners, for



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example we are supplying air conditioner kits, this inverter value terms realizations happens at the brand level.

Aditya Bhartia: Sorry I did not get the last point.

Jasbir Singh: For example, we are supplying the air conditioner kits for largely without compressors, sometime, most of the time the inverter PCB board, which is additional in the inverter AC as compared to the normal fixed, that is fixed at the brand level. So, the revenue recognition happens at the brand level, not at our level, but since these are standalone numbers IL JIN is not added here, so once the IL JIN get added to the consolidated number you will see that impact of inverter ACs which we are building, so right now we are directly billing the inverter PCB board into the brand.

Aditya Bhartia: Right, I understood and Sir this is the second consecutive quarter wherein we have seen margins expanding. What should be our expectation on this front going forward and what are the factors that are contributing to gross margin expansion?

Jasbir Singh: So, margin expansion is happening because of our buying leverage and operating leverage. Our buying leverage is quite significant now. We have been able to negotiate better terms with our suppliers, because the quantities are quite large and we become one of the largest buyers for them, so that is the one and also the operational efficiency at the plant level. And moving forward we are endeavoring on the same margin expansion strategy.

Aditya Bhartia: Okay. Lastly Sir interest expense run rate has obviously come down very sharply with the repayment of debt through IPO proceeds but I understand that there are lot of other things like bill discounting that will also go in the intrinsic time, the current run rate that we have seen in Q1 should that be a sustainable run rate for the next few quarters as well?

Jasbir Singh: Yes on a standalone basis, that there is a number which we are also looking at.

Aditya Bhartia: This is really helpful Sir. Thanks.

Moderator: Thank you. Next question is from Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Good evening. Sir my first question is when you talked about inventory buildup and you talked about industry degrowing at 10% to 11%, can you quantify which are the customers which you have in the top five, would have degrown by how much, is it possible to share that?



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Jasbir Singh: No I think we are not the right agency to comment on that but if you would be hearing the listed company's numbers and we work with both listed and unlisted, so across the sector, we have seen that some of the brands have even degrown to extent of 20% but some of the brands have also gained a bit in single digit, so on an average the numbers are coming to about 10% to 12% dip in the industry on the volume terms.

Nitin Arora: Now when we talked about inventory, you said that inventories are still higher obviously the brands would have not taken from you, Q2, Q3, any which ways remains a very lean period, it is possible to share what sort of inventories currently you are holding for these brands, as a percentage or anything if you can quantify and how soon you think you can start giving this inventory to the market, just to see the perspective because if the inventory remains higher even if our Q4 season kicks back the old inventory, which first even have to go, so just need to understand from that context?

Jasbir Singh: So we are expecting a liquidation of the inventory in Q2 because there is a not a very large inventory build up at our level. We have been focusing and it is hand in hand experience with the brands where it goes on, so whatever is lying with us, I think that has been consumed to certain extent in July and it should be consumed within going forward by September. And largely the inventory, which is lying with us, is in raw material form. So it is not pertaining to any particular brand as such where we will have to wait for the brand numbers to go up.

Nitin Arora: And what are the working capital days versus Q4 in this quarter for you?

Jasbir Singh: So we have working capital days of about 53 versus 35 of Q4.

Nitin Arora: That is largely because of the inventory?

Jasbir Singh: That is right yes.

Nitin Arora: That is a pretty high number, so that is what I am asking. Okay.

Jasbir Singh: The inventory as well as receivables because we have seen some delayed payments from certain customers because of this season so both the things are actually impacting the net working capital days getting it.

Nitin Arora: Sir my second question is somebody in the call said that margin improvement, when we look at your margins, it is about 9.1% versus 9% last year, excluding other income into the revenue part on the net basis. So, it is a very flattish margin year-on-year, given that IL JIN



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will get consolidated and everything will get consolidated at the separate business or PCB unit, but on a standalone basis, is this recurring margin, you looking at it or you see some improvement here also?

Jasbir Singh: So, Nitin as we told earlier also that there is a continuous effort at a company level for looking into the inefficiencies as well as taking the operating leverage and also buying leverage, so all three are moving in tandem and I expect that there should be some improvement in the margin going forward as the season will pickup.

Nitin Arora: My third question is on the recent PCB unit, which is started by LG at their Noida plant and they have commissioned a full capacity, is there a risk you see to IL JIN taking away a little bit LG started in-housing the revenue from the IL JIN side, which they are currently giving a big number to IL JIN just need your take on that?

Jasbir Singh: So IL JIN's business is not impacted. What LG has in sourced is the imported component of inverter parts, and largely they have started with some bit of refrigerator and some portion of air conditioners but they have not yet started washing machines. So IL JIN's order book is very, very consistent with LG. In fact both the locations in Ever as well as IL JIN, Pune and Noida both are at the same level where it was in last year, so that was made very clear to IL JIN management in fact LG management also that their business will not be impacted and in fact they are deleveraging their import content by bringing it in house. We have been adding new customers in IL JIN so you will see at least about three to four new customers being added by December, the reliability of the components are already on, and this is a product, which has got a fairly largely entry barriers due to the reliability cycle it has, so customers have already put in the reliability cycle and I believe that by December you will see three new more customers added in IL JIN.

Nitin Arora: Sir can you share the revenue EBITDA and profit of PICL, IL JIN and Ever for Q1?

Jasbir Singh: So Q1 revenue we have both put together, for IL JIN we have about 84 Crores, and PICL is 31 Crores on the revenue side, on the EBITDA the percentages are almost in the range of similar percentages of 3.5% and about 6%-7% in PICL.

Nitin Arora: Sir Ever?

Jasbir Singh: Ever, the revenue is 61 Crores and which again in the range of 3% to 3.25% right now.

Nitin Arora: Thank you very much Sir. I will join back in the queue. Thank you.



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Moderator: Thank you. The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.

Bhoomika Nair: Good evening Sir. Just wanted to understand the inventory because of the monsoon impact and the higher inventory in the system, would this kind of have slipover effect if not for our production but at least in terms of demand over the next two quarters?

Jasbir Singh: Definitely there will be an impact because of inventory levels lying at the brand levels, but it depends on the model inventory which particular model inventory they are carrying, so there are certain models which are not in the inventory for the brands and that will keep on moving whereas the inventory in particular models, which the brand is carrying I mean they will definitely like to liquidate that first before picking up another one, but since we had added new customers and new products in Q4, so our volumes are pretty much intact right now what guidance we gave.

Bhoomika Nair: Okay and so given this I mean what would be our volume guidance in terms of for the full year and where do you see industry in relative growth terms?

Jasbir Singh: Yes, so Bhoomika you are asking about...

Bhoomika Nair: Guidance for the full year volume growth for us as well as for the industry?

Jasbir Singh: So we have done about 1.9 million units last year and we have given guidance of close to about 2.2 to 2.3 million range and we maintain the same, the order book is quite robust, generally the impact will come in the Q3 and Q4, so that is what we are gearing up for. On the industry side, I think we anticipate industry to register at least a single digit growth despite of the seasonality impact in the Q1, and could be in Q2 as well, but I think there should be a single digit growth at the end of the year by industry.

Bhoomika Nair: Okay. So for your growth particularly if you can throw some light. We had introduced the one ton and two ton IDU during the year, so how is that spanning out which are the new customer addition that we have seen?

Jasbir Singh: We have added these two category of new products expansion in various customers categories, so like Voltas and also we have giving to two other customers like Micromax and Godrej plus we have seen a uptick in a window air conditioners where we added two new customers and they were addition in new product with one existing customers, so both the categories are growing fairly well and it has been accepted models line up is good now



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as compared to last year. So that is why we are very confident of achieving the guided numbers.

Bhoomika Nair: So, Sir I mean within this how would be the growth for the one ton and the two ton kind of – what kind of volumes are we looking at from this new IDU that you are seeing during the year?

Jasbir Singh: I think Bhoomika what we are doing is at one ton category we have various sub models, but in all models put together in one ton category, we are looking at somewhere about 1,60,000 new numbers. And also, similar numbers in the two ton category also, so all put together, 3-3.5 lakh units will be additional by these new category, plus the existing growth which was going on by addition of new customers in the existing product. And also, as I told you that in Q1 we have grown in non-AC segment also pretty well and AC component segment also that is also growing. So, the guided numbers of volume as well as value is quite robust, the order book and I think we are very, very confident of achieving what we are guiding on the value terms and also on the volume terms.

Bhoomika Nair: Okay. Sir so if in terms of Ever what is our current stake that we are looking to kind of increase the stake there, so what is the current dealing and by what time line are we looking to increase the stake?

Jasbir Singh: So we have picked up 19% Bhoomika earlier and what we heard from the management of Ever was that the CP closure will be done probably by end of September or maximum by October, so that is when we will enhance our stake to above 51%.

Bhoomika Nair: Sir just coming back to the inventory levels, our working capital cycle, which was discussed earlier and it is kind of moved up very sharply, so what is the level of bill discounting that we are doing currently, can this increase or given that we will now be generating good amount of cash flows, so what is the thought process there?

Jasbir Singh: Bhoomika as we talk right now, we have zero bill discounting done and the company is generating good cash and we are sitting on a fairly low consumption of working capital limits, so I do not think that we will be going for a bill discounting at this moment of time. Because it is very expensive product to have in generally, bills are discounted by brands, nothing less than 11%-12%, and upfronting interest also happens because if they are discounting your bills before 60 days they will upfront the entire interest, so it is very expensive product to actually going for, so we are not going for that at the moment.



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Moderator: Thank you. The next question is from Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Thank you for the opportunity. Sir we have about 25% market share in the units manufactured and sold in India, just wanted to know this market share and our 10% to 15% type volume growth assumption that we have made for FY2019, does it build in any additional clientele or any additional business win and market share gain and if yes then what kind of clientele or business wins we have?

Jasbir Singh: Well the market shares will be definitely defined by end of the financial year, once the numbers are there, on our side the new customer addition and the new products addition is the expansion of the volumes, so yes we took it as 10% to 12% of incremental volume in the complete industry as such, but there are other factors also because replacement cycle is moving on the lower side from 12 years it has come down to 8 years and also the inventORIZATION is helping the volumes of our business growing up, so we see the volumes intact and once the volume of the industry is there, we will be maintaining the market share and may be we are gaining also.

Pritesh Chheda: No Sir my question was in FY2019 when you say about 2.2 million units is what you think you will do versus 1.9, obviously this factors some amount of market share gain, so just wanted to know the new customers or the new business that we have won, which gives us the visibility of this 2.2 million?

Jasbir Singh: So we are adding customers. We have already added in Q4 and certain there are two more customers will be added in Q2 and Q3, right now we will not be in a position to comment the name of the customers, but you will shortly come to know about it, but these are two customers will be added - I mean one customer has already signed up, another one will be signed very soon.

Pritesh Chheda: Okay. Out and out for Amber, what kind of market share eventually three to five years down the line is possible? What reflects 20% like then how I calculated 20% is 1.9 billion units sold by you.

Jasbir Singh: So we were at 14% five years back and we ended up that 19-20%, last year, so we expect the similar kind of growth trajectory in the market shares.

Pritesh Chheda: Okay, so about four years back you were 14% so what a percentage market increased every year?



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Jasbir Singh: Yes, I mean in case you can have I mean we cannot right now predict as if will it be 1% every year, but over a period of three to five years, you will see a substantial jump.

Pritesh Chheda: Okay and my last question is on IL JIN and PICL, if you could give out the growth strategy there, I think in one we have PCB that is controlled box and other which is motor, just wanted to know the market potential there and how the market is structured today and what can we with that business?

Jasbir Singh: So IL JIN manufactures inverted PCB boards for not only air conditioners, but also for refrigerator, washing machines, microwave ovens and water purifiers, so they had only two customers before we acquired the company and we are bringing in additional customers so it is a very nice horizontal deployment of all our customers there, and it was rightly timed acquisition because inventORIZATION has really kicked and well, so we are expecting that our country should be at least 70% to 80% inverter market in next three years, which already cross 40% last year, it is moving towards 50 to 60%. Many of the brands, they have already gone for 100% inverter like LG, so this is one product, which is really needed and most of the brands have been importing this component right now from China and dollar moving up has actually initiated lot of enquires for IL JIN and above that IL JIN is also manufacturing PCB boards for refrigerators, so there are new customers which we are anticipating in the refrigerator zone, it is already supplying to IFB and to LG. But we are adding non-AC component sector also in IL JIN. It will be supplying for refrigerator, washing machine, new, new lines are being added up in Gujarat,. So we are talking to those customers wherein most likely those customers will be also on board in IL JIN. So what we are expecting is that in this year, there will be incremental of 40 to 50 Crores additional revenue from new customers, because the new customers will be added in last quarter only, because of the longer reliability cycles of the product. But next year FY2019-FY2020, you will find at least 150-200 Crores additional revenue coming from these new customers at a better gross margins. On the motor side, the company witnessed little bit of tailwinds because of lesser exports, and of course the domestic also did not do well. But we have also added more customers there, and new products, which was Resin-core, which was not in the product portfolio, which was indoor motors, so 100% of the indoor motors were being imported by the industry and PICL, has become the first company to start giving the domestic solution. So we expect large volumes of that also moving forward.

Moderator: Thank you. Next question is from Anshuman Deb from ICICI Securities. Please go ahead.

Anshuman Deb: Thanks for the opportunity Sir. I wanted to understand about the accounting treatment of Ever and IL JIN, so as we end FY2019 will be having 70% of both Ever and IL JIN and so



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there will be likely minority interest in our books, and that 70% is going to stay for FY2020?

Jasbir Singh: Anshuman in the IL JIN scenario, we have 70% and the clear understanding will be acquiring balance 30% in the next two to three years, so auditors have taken a view that it is 100% subsidiary, so we have consolidated the 100% revenue and everything and showing the 30% payable under the liability side and Ever also the same treatment will happen.

Anshuman Deb: Okay, so I just wanted to understand from a valuation perspective or let say that what are the risks of that 30% getting delayed because we already have quarter of delay in I think the acquisition of Ever, so what is that 30% or the chances of 30% might stay with minority investors?

Jasbir Singh: Earlier promoters of IL JIN do not have an option for delaying it. We have an option to delay it.

Anshuman Deb: Okay, so my understanding is that in the next three years it will become a 100% subsidiary?

Jasbir Singh: Yes, that is right.

Anshuman Deb: And the liability that you spoke of 30%, it will be – what kind of liability it will be, it will be the money that the amount of generated or in the three to four years for the 30% stake plus that debt value or what is that?

Sudhir Goyal: There is a valuation done by the professional, on the basis of that, they have done some present value factors pertaining into that, so they have taken some value, so which has shown under the non-current liability.

Anshuman Deb: Okay, can we have that value, what is that value?

Sudhir Goyal: So that value is between 20 and 25.

Anshuman Deb: 20-25 Crores?

Sudhir Goyal: Yes.

Anshuman Deb: And both Ever and IL JIN combined right, 20-25 Crores?

Sudhir Goyal: Both Ever and IL JIN combined.



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- Anshuman Deb:** Okay. Thank you so much.
- Moderator:** Thank you. Next question is from Abhineet Anand from SBICAP Securities. Please go ahead.
- Abhineet Anand:** Sir, is it possible to breakdown the sales in the AC component, non-AC component segments?
- Jasbir Singh:** Yes Abhineet, the sales wise the spread is Rs.466 Crores is basically the AC and Rs.53 Crores are AC components and non-AC components are 83 Crores.
- Abhineet Anand:** Okay. Secondly obviously IL JIN will be adding customers this year, so I think that numbers would be a bit fluid, but what is our expectation going into FY2020, what is our expectation in terms of sales and margins for IL JIN and Ever?
- Jasbir Singh:** So IL JIN is expecting to do around 360 to 370 Crores of topline this year against its 335 Crores last year, and next year IL JIN should do at least 525 Crores revenue by this new customers, addition new customers and existing business. Ever will be touching about closed to about 250 Crores this year and as moving forward, we think that we should be able to grow Ever also at 20%.
- Abhineet Anand:** And in terms margin expansion, how do you see that?
- Jasbir Singh:** So margin Abhineet, we do not see a large margin expansion in this current year because the new customer addition is happening only in the last quarter, so you may see may be 100 BPS margin expansion increasing this year whereas next year you will definitely see 150 odd BPS going forward.
- Abhineet Anand:** Secondly PICL, I think the performance has been a bit tepid for last one and one and a half years, so what is strategy in terms of turning it more profitable for the next year?
- Jasbir Singh:** Initially we faced a lot of tailwinds because of it is banking on export business in the Middle East, which went through a crisis and fortunately we do not lose any market share with any brand there, but unfortunately the market itself shrunk because of the crisis in the Middle East, so what we did is first when we bought the company it was almost 55% export and 45% domestic, but now it is 70% domestic and 30% export, so we are coming out from banking on exports, number one. Number two we have added new product portfolio there, which is resin-core, which was not there, so PICL was not manufacturing the resin-core motors, which are used for indoor units, it used to manufacture only window and outdoor



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motors. So indoor entire industry has been importing resin-core, so this is the first year we have only launched that product, and we have started giving to the customers, we expect that by next year, you will see a very positive jump in the PICL as well.

Abhineet Anand: So just on this resin-core, how big that assuming that on market share in the ODU part remains, I mean how they can this number be in terms of sales for PICL?

Jasbir Singh: See the market size of complete India for the indoor resin-core is about close to 5 million motors right now, and there was zero which was being brought from India, because nobody was manufacturing, so PICL has become the first company to offer that product, and this year itself, we will be doing close to about 400,000 numbers to start with and this number we are expecting to touch a million or may be million and a half by next year, because entire customers are coming to us because the dollar is going up and as the volume goes up everybody is looking for our localization.

Moderator: Thank you. The next question is from Harish Bihani from SBI Mutual Fund. Please go ahead.

Harish Bihani: Sir I just wanted to understand the basics once again, so say a customer who is already a large customer, when would he place a order, so assuming he assumes a decent summer season, when does he place a certain quantity of orders, then say by the time March-April happens he realizes that things are not going so great, so what kind of quantum can the kind of back track or he can see that I can kind of taken in later, so I hope you got my question, so essentially I will just try to understand the basics?

Jasbir Singh: So there is no thumb rule which everybody follows, every brand has a different timings on giving us a schedule for the next year, somebody does it in July, August and there are brands which does it in November also, so we consolidate all the numbers and then we get quarterly numbers where one month are the fixed schedules and two months are the rolling plans. So there can be changes in the rolling plans to a percentage whatever the markets are looking into, but generally what we have seen in that there has been because we are in the industry from almost two decade and we have seen this summer patterns unpredictable rains earlier time also, but normally over a period of financial year, the brands do volumes would hit us, we have never seen that there will be drastic reduction in the volumes. So generally the first one month plan is always fixed and the next plan is always two months there, and in our industry there is a lead time, high lead item like compressor, which is imported, and generally that is supplied by the brand, so brand also have there skin in the game from also because they supply us compressor in tandem to the volumes committed. So for example, if a brand I said that okay 50000 X model is being supplied, so they will also plan for X



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50,000 of compressors, so that is a surety from brand side that they will lift 50,000, it can happen that okay fine there are rains or some other reason that they have been unable to pick it up this month or may be next month, but they will definitely pick it up, so we have never seen drastic reduction in the volumes and moreover this unpredictability of the rains, does not change the long term outlook of the sector, so we are quite confident that the numbers which have been spoken by the brand, none of the brands have asked us to curtail down the annual numbers which we have given are still now.

Jasbir Singh: Okay Sir. Thanks a lot.

Moderator: Thank you. Next question is from Srinivi Karlekar from HSBC. Please go ahead.

Srinivi Karlekar: Thanks for the opportunity. Sir there was an article in just few days back where government was trying to come up with the policy to improve localization of some of the electronic goods including ACs and one of the reason for high import was related to inverted duty structure, Sir in this context I wanted to understand whether duty structure is really inverted in this AC supply chain, and what percentage of Indian market in your view is import dependent on a unit level?

Jasbir Singh: Import dependency in our sector is largely in the indoors and less in windows and outdoors, so almost about 15% to 16% of the industry volumes are being imported currently, and this is a voluminous product where in one container you will find only 180 window air conditioners coming in, so the brand which goes for a larger volumes tend to become domestic, but yes I mean in case that article which came in, in case that clicks in, so the 15% which is being imported certainly will benefit Indian players such as us and we are confident, the industry as a whole has been requesting the government for giving us this kind of update where local manufacturing can kick in and ecosystem of the components can also kick in, so we are quite hopeful if that happens that will be very positive for us.

Srinivi Karlekar: Right, so 15% to 16% is your estimation of current imports that is happening in overall, fair enough Sir and Sir second is like I just wanted to understand if from an operating efficiency, if you bring in some margin improvement, how much does it get passed on to brand eventually or you get to keep it entirely?

Jasbir Singh: See our management's view is that first of all our philosophy is that we should be enabler for the brand's growth because if brand is growing by 10%, we automatically grow by 20% with them, we are supplying multiple products to them and also components to them, so whatever meeting meetings we do for taking care of operating leverage, and also we believe in sharing and without impacting our profitability that is how we have added – we have



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actually come up to this level where we are today, by giving complete - working on the complete SLE 50 programs and also taking operating leverage by and buying leverage also, so that is continuous process, which we keep on happening and if we say for example Rs.100, we definitely pass on above 30 or 40 rupees to the brand which also increased stickiness with us and that is why Amber has become the different company for a brand and it is actually given a treatment of partnership level rather than supplier level.

Srinivi Karlekar: Okay, fair enough. Sir last one is there a way to measure some capacity utilization that you are currently operating and what would be the likely capex for FY2019 and FY2020?

Jasbir Singh: So we are at a capacity utilization of almost 55% now and on a seasonal basis we will be hitting close to about 67%. So we have fairly large capacities, which are remaining, but they are restricted to geographical presence, but the planned capex is 45 Crores this current year, which includes R&D product development tools and the maintenance capex of all 12 plants, so that is the plan right now.

Moderator: Thank you. Next question is from Balvinder Singh from Canara HSBC. Please go ahead.

Balvinder Singh: Thanks for opportunity. I missed the number on the volume part, does you give for quarter one of Amber?

Jasbir Singh: So this is 549,000.

Balvinder Singh: And would it be possible to break it down into split and fixed?

Jasbir Singh: You want to breakup into what?

Balvinder Singh: Under fixed and inverter?

Jasbir Singh: No that is not possible because we give solution in both the categories. We can give you a split in the IDU, ODU and window category, so what we have done about close to about 229,000 of indoor and we have done about 180,000 of ODU and remaining our window ACs.

Balvinder Singh: Okay and on the industry side when do we expect the inventory to be liquidated so that the fourth quarter numbers are not impacted for the industry as a whole?

Jasbir Singh: So as such every brand is carrying a different level of inventory, so it will be very difficult to answer that what level and what timing we anticipate, but what we are looking at is



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because our inventories are all in raw material form, so we are expecting the liquidation within this Q2 for the inventories.

Moderator: Thank you. Next question is from Nirav Vasa from B&K Securities. Please go ahead.

Nirav Vasa: Thank you very much for the opportunity. Sir I just wanted to check that was there any impact in terms of your procurement strategy because buyer credit was now all of a sudden stopped by the Reserve Bank of India and how were we able to deal with it at that point of time?

Jasbir Singh: No, we were not really largely impacted because of the buyer's credit, we used to avail it but we had some sufficient LC limits which was shifted to LC, so we were not largely impacted by the buyer's credit.

Nirav Vasa: So second question is like as I understand the demand for room air conditioner is increasing in China also so because of that are you seeing any increase in the compressor prices because I believe you also import some of the compressor because some of your customers are requesting you to provide the entire air conditioner?

Jasbir Singh: Yes, so compressors are largely supplied by the brand to us and that is a pass through component for us because whatever cost brands supply to us we add that in the costing, so one is to answer that we will not be impacted in case that happens but right now looking into the market scenario, in India we do not see any kind of uptick on the pricing of compressor, at least till October, November, I do not think so there will be any increase in the pricing.

Nirav Vasa: Thank you very much Sir. My queries have been answered.

Moderator: Thank you. Next question is from Sanjeev Zarbade from Kotak Securities. Please go ahead.

Sanjeev Zarbade: Yes Sir, my question is regarding we have missed on the leading brand as our customers, except that of Samsung, so could you throw some light on what we are looking in terms of tapping such a large brand to our outsourcing opportunity?

Jasbir Singh: See, Samsung is situated in southern part of India in Chennai that is where they manufacture air conditioners and whenever we build a plant we have been cognizant of the fact that they should be customer cluster in and around because if you see our strategy we are mitigated the customers exchanges over the market share between them and we have seen many bigger brands like LG degrowing from 26% to where they are. Samsung used to



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be at 18% many years back in 2008 today there are only 4% market share in the industry, so once the other customers moved there in southern part of India like where we are hearing from some of the brands large marquee brands, which are planning to move to southern part of India, we will definitely plan a Greenfield facility near to that and that is when we will like to tap Samsung also. But other than that the customers which are all the brands which are having close to about, 75% market share, we are serving them.

Sanjeev Zarbade: As regarding non-AC components revenue it would be around 83 Crores odd, is that kind of that run rate is sustainable over the next three quarters?

Jasbir Singh: In fact it will be increasing more than that because this is a standalone number of 83 Crores, you will see IL JIN and Ever also coming in where there is a large number of close to about 200 Crores, which is being supplied to non-AC components, so by these acquisition we have also strengthened our non-AC component sector.

Sanjeev Zarbade: Okay. Thanks and all the best.

Moderator: Thank you. The next question is from Monali Jain from Dolat Capital. Please go ahead.

Monali Jain: Thanks for the opportunity. Sir I just wanted to know the contribution from indoor, outdoor and window ACs in terms volume in percentage terms?

Jasbir Singh: So we have already answered this question Monali but we will repeat it, so indoor we have done 229000, 180000 is close to about outdoor units and remaining is window.

Monali Jain: Okay that is the total volumes in?

Jasbir Singh: 549000.

Monali Jain: Okay and my second question is like do you think that GST rates have come down for AC from 28% and how that rates impact the volumes at the consumer level?

Jasbir Singh: Well, it is very interesting question, we would expect that will come down in fact but it did not happen because we did not take that, we were obtaining, but right now there has been article in the Economic Times that government may consider inverter air conditioners push to 18% GST regime, but we cannot comment when it happens, but whenever it happens definitely there will be a good impact because it reduces the cost by maybe good 5%-7% of the complete product, so we are hoping for the best in the forthcoming budget.



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Monali Jain: Okay. Thank you so much.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management for their closing comments.

Jasbir Singh: I hope we have been able to answer all your queries. In case you require any further details, please contact us all our Investor Relation Advisors, SGA, Strategy Growth Advisors. Thank you everyone for joining us. Thank you very much.

Moderator: Thank you. On behalf of Amber Enterprises India Limited we conclude this conference. Thank you for joining us ladies and gentlemen, you may disconnect your lines.