



“Amber Enterprises India Limited  
Q2 FY2020 Earnings Conference Call”

November 08, 2019



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*Amber Enterprises India Limited*  
*November 08, 2019*

**Moderator:** Ladies and gentlemen, Good day and welcome to Amber Enterprises India Limited Q2 FY2020 earnings 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 the 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. Thank you and over to you Sir!

**Jasbir Singh:** Good Morning everyone and a warm welcome to our Q2 FY2020 Earnings Conference Call. Today I am joined by Mr. Daljit Singh – Managing Director, Mr. Sudhir Goyal – CFO, and SGA, our Investor Relation Advisors. We have uploaded our updated result presentation on exchanges, and I hope everybody had an opportunity to go through the same.

As far as business update goes, our room air conditioning industry has not been much impacted due to overall slowdown in the economy. The industry has done fairly well, and we have been observing over the years that the delta of seasonality curve has been reducing and hence the volume uptake in the nonseasonal period. Also due to desire of comfort living, increasing per capita income and easy financing available in the market for consumer durable products the volumes have been increasing. We have been able to maintain our growth momentum and clocked a robust volume growth of 127% as compared to Q2 FY2019. Our RAC volumes for the quarter stood at 4.13 lakhs units as compared to 1.82 lakhs in Q2 FY2019. Our volume growth for H1 FY2020 stood at 99%; RAC volumes for H1 FY2020 were 14.5 lakhs as compared to 7.3 lakh in H1 FY2019. As highlighted earlier we endeavor to grow at a higher pace than the industry.

The growth in the volumes was primarily due to addition of new customers such as Samsung, Toshiba, Livpure and others, and also mass production for Flipkart and Amazon has also started. The deeper penetration in the existing customers and offering more products increasing our wallet share. Addition of new energy efficient models on continuous basis and increased demand from players, which do not have manufacturing facilities and now due to higher custom duties and logistical hassles imports not being a viable option.



*Amber Enterprises India Limited  
November 08, 2019*

I would also like to highlight that not only our RAC division, but our RAC components and other business divisions which includes operations of Sidwal are gaining momentum and our penetration level with customers are increasing. We further expect this to grow after seeing the full year revenue from customers added in the last two quarters.

As far as the subsidiaries update is concerned, as discussed in the previous communications we have acquired Sidwal Refrigeration Industries Private Limited, which also includes business of Sidwal Technologies and now is a subsidiary of Amber Enterprises from May 2, 2019. Now we have first full quarter of Sidwal's performance consolidated into our accounts. Business integration with respect to the systems and processes have been successfully implemented and we have identified synergies between Amber and Sidwal, which will bring cross selling opportunities, operational efficiencies and margin enhancements going forward. We see decent growth opportunities in Sidwal due to additional metros coming across the country and increase in number of air condition passenger coaches in railways over the years. We have recently won an order of Rs.167 Crores from BEML, which is for Mumbai Metro, which is to be executed within a timeframe of 18 to 24 months.

PICL has also performed well in this quarter and now is PAT positive as compared to previous quarter and comparable previous period. This is due to increased demand of locally sourced components from Indian OEMs. We see improved demand for components going forward.

Our subsidiaries IL Jin and Ever are also doing fairly well. The customers which are being added recently will have a full year impact this year and we foresee revenues and margin uptake in the subsidiaries as well. We have completed the acquisition of large tranche of 51% in Ever Electronics on October 18, 2019, and now it is a subsidiary of Amber with 70% stake.

I will now take you through the financial numbers. Let me first take you through the standalone highlights. The total standalone revenue of Q2 FY2020 stood at Rs.393 Crores up by 74% as against Rs.226 Crores for the corresponding quarter last year. Revenue from H1 FY2020 stood at Rs.1,389 Crores as compared to 828 Crores in H1 FY2019, a growth of 68%. Revenue from room AC grew at 89% from 616 Crores to 1,165 Crores in H1 FY2020. Our operating EBITDA post the impact of Ind-AS 116 for the quarter stood at Rs.17 Crores as compared to Rs.11 Crores in Q2 FY2019, a growth of 58% on YoY basis. EBITDA margins for Q2 FY2020 stood at 4.4%. Operating EBITDA for H1 FY2020 stood at Rs.110 Crores as compared to 71 Crores in H1 FY2019, a growth of 55%. Operating EBITDA margin stood at 8% for H1 FY2020. Standalone PAT for H1 FY2020 stood at



*Amber Enterprises India Limited  
November 08, 2019*

Rs.53 Crores as compared to 27 Crores for H1 FY2019, a growth of 96% YoY. PAT margins for H1 FY2020 stood at 3.8% as compared to 3.3% for H1 FY2019 an increase of 55 bps. Our net debt as on September 30, 2019 for standalone entity stands at Rs. 228 Crores as compared to Rs.270 Crores on June 30, 2019. Our working capital days are at 45 days from 57 days in corresponding period last year.

Moving on to the consolidated results. Our revenue for Q2 FY2020 grew by 89% from 330 Crores to Rs.623 Crores. Growth from subsidiaries has been significantly up as compared to last year with better margins. H1 FY2020 revenue stood at 1859 Crores as compared to 1038 Crores in H1 FY2019, a growth of 79%. Revenue breakup from subsidiaries before the intercompany adjustments for Q1 FY2020 stands as below. PICL contributed 84 Crores, IL Jin contributes 166 Crores, Ever contributes 155 Crores and Sidwal contributed 94 Crores. Operating EBITDA for Q2 FY2020 as on consolidated basis stood at Rs.37 Crores as compared to 16 Crores in Q2 FY2019, a growth of 134%. EBITDA margins stood at 5.9% for Q2 FY2020 as compared to 4.8% in Q2 FY2019, an increase of 113 bps YoY.

Operating EBITDA for H1 FY2020 stood at 153 Crores as compared to 79 Crores in H1 FY2019 a growth of 94%. Operating EBITDA margins for HY2020 increased by 65 bps YoY with higher RAC volumes, standout performances in subsidiaries and operating leverage play out we were able to deliver higher margins. PAT for Q2 FY2020 stood at 12 Crores as compared to loss of 3 Crores in Q2 FY2019. PAT for H1 FY2020 stood at Rs.77 Crores as compared to Rs.24 Crores in H1 FY2019, a growth of 220%. PAT margins for H1 FY2020 stood at 4.1%, an increase of 181 bps YoY. We have not taken benefits of lower tax rates since we have accumulated MAT credit in our books for standalone entity Amber; however, lower tax benefits have been availed for the subsidiaries.

Our net debt on consolidated basis for September 30, 2019 stood at Rs.340 Crores as compared to Rs.380 Crores on June 30, 2019. Our ROCE stood at 19% for September 2019 as compared to 13% in September 2018, an improvement of 600 bps. We further foresee an expansion in ROCE due to operating leverage playing out and better control over the working capital. Since we are cash generating company, the Board of Directors has proposed an interim dividend of 16% that is Rs.1.6 per share. Our constant endeavor would be to increase penetration and increase our wallet share within the existing customers, continuously add new customer and enhance our products with new technologies by focusing on R&D. With this I open the floor for discussion.

**Moderator:**

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Vineet Prasad from Investec Capital. Please go ahead.



*Amber Enterprises India Limited  
November 08, 2019*

**Vineet Prasad:** Congratulations on very strong set of numbers. Sir, just as you highlighted that import substitution has played a huge role in strong revenue growth over the last several quarters post hike in customs duty just can you throw some light on how much part of a growth is driven from import substitution or what proportion of ACs are still imported from China or the countries in CBU form or how long this import substitution can play out further?

**Jasbir Singh:** Import custom duties increase was announced, first increase was announced on September 27, 2018 by Government of India and thereon what we saw was that it was import duty imposed on the CBU whereas we saw that most of the players took advantage of the ambiguity in the law, they started importing indoor and outdoor as a part of air conditioners, which was further clarified in this year's budget. So, after February it was clarified that indoor and outdoor cannot be imported as a part of air conditioners. So the traction of import substitution in India happened post February and larger benefit of this is visible in Q2 results because till February people had already released their letter of credits for the imports, so imports continued till Q1 whereas in Q2 it has come down this import subsidies are here to stay on at least for 5 to 10 years time and what government is seeing is, government is keeping a very close watch on whether the imports duty increase has decreased the imports or not. So, there is lot of data, which is being asked from us as well as from other players regarding this. I believe still at even 20% there are some models, which are being imported and window air conditioners is hardly being imported I think maybe 2% or 3% of window air conditioners is being imported whereas indoor still continue to come I think about 25% to 30% of indoors are still coming from China and outdoor has seen a reduction in imports after this increase in custom duties.

**Vineet Prasad:** Secondly, if I look at standalone gross margins this has been a second consecutive quarter where gross margins have contracted more than 2% points if we look at standalone basis. Can you just give some reasons as and why there is some contraction in gross margin?

**Jasbir Singh:** See the contraction of gross margin is in line to our Q1 results so there is no change from Q1 to Q2 whereas yes you are right from last year versus this year there is a contraction and largely because of the product mix change we are seeing this contraction in the margin because we are seeing the margins in a percentage basis whereas sometimes we have to fix compressors and sometimes we have to supply without compressors and there is add on revenue, which goes on and in inverter air conditioners there are still inverter PCB boards, which are being imported by customers where we do not have any margins in that so that is actually increasing the topline but not adding to the margin.

**Vineet Prasad:** Thanks a lot Sir.



*Amber Enterprises India Limited  
November 08, 2019*

**Moderator:** Thank you. The next question is from the line of Nirav Vasa from Anand Rathi. Please go ahead.

**Nirav Vasa:** Sir I would like to understand based on the ordering momentum from most of the OEMs according to you what can be the industry growth for this year since first half has been really very strong so what is the kind of momentum that you have seen for full year in percentage terms growth?

**Jasbir Singh:** As far as we see from April till October as per our resources industry has grown in the range of 15% to 17% and there are customers who have grown more than that, we have seen other customers also grew by in the range of 20% to 25%, there are some customers who grew in single digit and overall industry I think since October is finished now we are in almost mid of November it depends on Q4, if it does not rain in Q4 industry should close the year by at least 15% to 18% range.

**Nirav Vasa:** Sir 15% is typically the industry average, but first half has been so strong despite that you are still maintaining 15% because typically fourth quarter is where the maximum volume ramp up happens?

**Jasbir Singh:** You see we still need to see that despite of economical slowdown this industry has not been impacted and I believe there should be some lag impact in this sector as well so we have considered that and that is why we are giving a conservative range bound estimates. Yes, if Q4 goes extremely positive then it should cross 20% also. If you see TV industry it has degrown by 20%, refrigerator and washing machines are almost flat and with some brands it is negative. Air conditioner, room AC is the only sector, which has actually grown this year.

**Nirav Vasa:** Sir would it be possible for you to help, you have given me subsidiary wise revenue breakup, can you give EBITDA and PAT breakup?

**Jasbir Singh:** Yes, sure. Our PICL EBITDA is 5.37 Crores, which is 6% and the PAT is 1.37 Crores, IL Jin EBITDA is 8.5 Crores, which is 5.1%, PAT is 4.53, Ever EBITDA is 5.36, which is 3.5% and the PAT is 4.35, Sidwal EBITDA is 23 Crores, which is 24% and PAT is 15.5 Crores.

**Nirav Vasa:** These are numbers for 1H right?

**Jasbir Singh:** These are numbers for H1 yes that is right and in Sidwal case it is five months, because we acquired on 2<sup>nd</sup> May 2019



*Amber Enterprises India Limited*  
*November 08, 2019*

- Nirav Vasa:** Partial consolidation.
- Jasbir Singh:** Yes.
- Nirav Vasa:** Sir despite we are having almost majority stake, but in Sidwal I was expecting some component of minority interest also to come on consolidation but that has not come so can you throw some more light on that?
- Sudhir Goyal:** It has been considered as because there is agreement, after two years we have to buy it so there is a corresponding liability is appearing in the books, so that is why it is 100% is the consolidated here and NCI come in the balance sheet not in the P&L account, noncontrolling interest.
- Nirav Vasa:** Sir with regards to tax rate, in our standalone operations we are going for I think the tax rate for standalone operations would be around 33% for FY2020 and FY2021?
- Sudhir Goyal:** No actually on standalone basis we have tax rate of about 35% and on subsidiary basis we have lesser tax rate of 25% bracket.
- Nirav Vasa:** So because we are going to take this credit of MAT so our tax rate going forward was 35% only for 2020 and 2021?
- Sudhir Goyal:** Going forward we will switch after we consume the MAT, you cannot reverse it because once you change to a new regime you cannot come back to this regime so we want to first consume our MAT, we have about 37 Crores MAT lying with us.
- Nirav Vasa:** So effectively tax rate for FY2020 would be how much?
- Sudhir Goyal:** 35% for standalone.
- Nirav Vasa:** Okay so standalone is 35%.
- Sudhir Goyal:** Yes.
- Nirav Vasa:** And Sir my last question would it be possible for you to help me with the pending order backlog in Sidwal?
- Jasbir Singh:** Sidwal we have a very strong order book right now after receiving this new BEML order, our order book stands at around 480 Crores currently, which is to be delivered in a span of close to about 18 to 20 months time.



*Amber Enterprises India Limited  
November 08, 2019*

- Nirav Vasa:** So effectively Sir based on this robust order backlog Sidwal can easily grow by 20% YoY?
- Jasbir Singh:** That is what we are expecting yes.
- Nirav Vasa:** Thank you very much Sir. My queries have been answered.
- Moderator:** Thank you. The next question is from the line of Ajinkya Bhat from Macquarie. Please go ahead.
- Ajinkya Bhat:** Sir I have two questions, one is on the industry growth you mentioned that the YTD industry growth has been 15% to 17% now I just wanted to crosscheck that because so yesterday one of the large AC OEMs mentioned that the secondary seals growth YTD in the industry was 33% so when you mentioned 15% to 17% is it more from the perspective of a supplier, which means that this 15% to 17% could be essentially the representative of the production goes in the AC industry would that be a right assumption?
- Jasbir Singh:** Yes, I mean from our point of view we are talking about the primary sales, which happens whereas the brand, which has mentioned to you is the secondary sales so they must be talking about the sales to the dealers.
- Ajinkya Bhat:** Yes, they mentioned that they were talking about secondary sales so you have 15% to 17% number is essentially representative of the production growth in the industry YTD right?
- Jasbir Singh:** That is right.
- Ajinkya Bhat:** Thanks for that clarification and the second question is the slide #10 of your presentation shows ROCE and ROE so for 1H FY2020 you have 19% return on capital employed and 15% ROE so it is clearly lower than ROCE, which means that you actually have a lot of cash and financial assets, which are not deployed in the business so could you just throw some light on why that is the case I mean is there any specific business reason for which you need that cash buffer or something like that?
- Jasbir Singh:** See ROE is less since the capex is being done in the last six months and the last year which has not contributed well in the turnover so that will come in near future in the coming season we will be doing more asset turn and ROE then will increase.
- Ajinkya Bhat:** No, but then the capex that you would have done would also be a part of the denominator for ROCE right because your denominator is shareholder funds plus net debt so capex should not be the one that should be affecting broadly?



*Amber Enterprises India Limited  
November 08, 2019*

**Jasbir Singh:** That is the one thing and the other thing ROE is majorly on the shareholders front and after the IPO the base of equity has increased.

**Ajinkya Bhat:** Okay that is fine, maybe we will get it offline. Thank you.

**Moderator:** Thank you. The next question is from the line of Abhineet Anand from SBICAP Securities. Please go ahead.

**Abhineet Anand:** Sir very good set of volume numbers. First is I just wanted to understand on this online sales that is happening with Flipkart and Amazon being the new customers that we have added, if you can throw some light on the trend that is happening on the online versus offline so how was it maybe one, two years back, what percentage of the overall now and let us say in few years what do you see it is happening?

**Jasbir Singh:** So three years back online contribution in the industry air conditioning there was only 3% and now it is 12% it is growing very well and we have added now Flipkart and Amazon for us that their uptake is quite positive and they remain bullish for this coming year also and as per online players this penetration will go further to 15% in the next two years.

**Abhineet Anand:** And I suppose mix for the quarter as you rightly mentioned I think 1Q was a bit not favorable and hence the gross margins and volumes are higher than the average sales growth so if you can help us with 1H what has been the mix in terms of IDU, ODU and windows?

**Jasbir Singh:** So, on the H1 in IDU we have done about 6.98 lacs, ODU we have done 5.12 lacs and WAC, window AC we have done 2.41 lacs.

**Vinit Anand:** And if you can help with the capex that you have done in 1H what you expect and what you expect in the full year?

**Jasbir Singh:** So capex till date on the consolidated basis including subsidiaries is 67 Crores what we have completed and we expect another about close to about 50 to 60 Crores range.

**Vinit Anand:** Okay Sir, thanks a lot.

**Moderator:** Thank you. The next question is from the line of Hitesh Taunk from ICICI Securities. Please go ahead.

**Hitesh Taunk:** Sir my question is more of a topline front, since you mentioned that you have added some of the new clients during this period for staff. You mentioned like Samsung, Flipkart,



*Amber Enterprises India Limited  
November 08, 2019*

Amazon and all so I wanted to know if we remove those customers then what was the volume growth or revenue growth from the existing client for H1.

**Jasbir Singh:** For H1 existing clients for us the volume growth would be around close to about 30%.

**Hitesh Taunk:** And Sir my next question is a kind of a employee cost that is like increased on YoY basis we have seen a kind of reduction despite we have added some of the plants and have recruited employees in that so I just wanted to know why this, is it a more of a leverage this is playing out here?

**Jasbir Singh:** Yes, see when the loading of the plant happens you do not add manpower, for example your assembly line is running at a speed of producing 1,000 numbers shift whereas it can actually produce 1500 numbers with the same manpower so that leverage directly reflects in the balance sheet.

**Hitesh Taunk:** And Sir the last question is pertaining to the volume growth going forward. You mentioned like you witnessed some kind of change in the mix during the period so do you think this mix is going to stay for a year or two, in the industry we have witnessed kind of good growth in the three star ACs as compared to the premium product category or you may also say like premium category prices have reduced it substantially during this period so is it right to say that our gross margin likely to remain in this range going forward on a standalone basis?

**Jasbir Singh:** Yes, we think so because inverter air conditioner was a premium product two years back, but it is a new normal now, new normal has adjusted, so already 60% of industry is inverter air conditioners and moving forward yes there can be expansion in the margins if some new premium products keeps on adding in, but as of now since industry has already reach 60%, 65% for the inverter ACs I think it should stay in this range.

**Hitesh Taunk:** Okay Sir. That is all from my side Sir. I will come in the queue.

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

**Pritesh Chheda:** Sir I wanted to get a sense of your volume growth number in the room air conditioners side and is there a rise in ODM share in the total industry and now what will be your share?



*Amber Enterprises India Limited  
November 08, 2019*

- Jasbir Singh:** So we have on H1 basis from 7.31 lacs units we have grown to 14.51 lakhs and we are largely ODM players, our share of OEM will be hardly 9% to 10%, so 90% is ODM for us and moving forward we have strong growth numbers, we have a strong order book.
- Pritesh Chheda:** Actually, my question there was what would be your share in the outsourced AC manufacture and what would be now outsourced AC manufacturing as a percentage of total industry volume?
- Jasbir Singh:** We believe that the outsourced industry is now about 38% to 39%, which used to be earlier 34% and six years back this was only 16% and we should be maintaining in a range of about 57% to 58%.
- Pritesh Chheda:** And lastly FY2019 had bulk of the growth coming towards the fag end of the year so if you would see the season for FY2019 and FY2020 bulk of the growth has come is it fair to assume that bulk of the growth has come in the first half of the year?
- Jasbir Singh:** You see last year also we were expecting a good jump in the first half also but due to unseasonal rains the whole cycle was disrupted and the Q4 number is with the whole industry went negative, if you see the Q1 numbers in industry was negative 13% and the industry ended up almost flat whereas we grew by about 11% last year. So, it all depends, it depends if Q4 does not witness any rains, yes definitely I would say that still growth is yet to come and if it rains in Q4 then certainly there will be impact.
- Pritesh Chheda:** So, what should be your volume growth in room air conditioners for the year?
- Jasbir Singh:** Actually as of now we have delivered a very strong number, but because of adding customers we had decent customers now with us, which were not with us, so we expect a good number, what all the guidance what we want to say is that we will again outnumber the industry for H2.
- Pritesh Chheda:** See it is about 100% in the first half?
- Jasbir Singh:** It is very difficult to predict how the season will pan out; if you ask me the order book we have a strong order book today.
- Pritesh Chheda:** Is it a growing order book over last year's base?
- Jasbir Singh:** Yes, it is of course growing order book because the Samsung and Toshiba, Livpure, Sanyo, they were not with us last year.



*Amber Enterprises India Limited  
November 08, 2019*

- Pritesh Chheda:** That was helpful sir. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Utkarsh Nopany from Edelweiss Broking. Please go ahead. It seems there is no response on the line of Utkarsh we will move to the next question that is from the line of Ritesh Bhagwati from Rockstud Capital. Please go ahead.
- Utkarsh Nopany:** Sir basically I wanted to understand more on the expansion front that we are doing at Tirupati so first of all like have the land been acquired as on date?
- Jasbir Singh:** No, it has not been acquired because our customers are going very slowly on southern part of India expansion so we are waiting for them to start their construction and then we will start the process. We have identified the land package and we have negotiated with government, so we are seeing some small change in strategy in the location for decision by the brand so we are waiting for them to close their strategy maybe Tirupati become Sri City or something like that so we will move in tandem with them.
- Utkarsh Nopany:** But then can you give a ballpark figure as to what would be the capacity that we will be adding over there and at the same time the cost?
- Jasbir Singh:** See we are looking for 10 acre facility and for us the Greenfield facility as we explained last quarter also that the capex will be something about to a tune of 100 odd Crores, which will be spread in two financial years.
- Jasbir Singh:** And the next question generally like what is the typical contract term with our customer that I would like to understand with our repeated customers?
- Utkarsh Nopany:** So we have a long-term contracts with the customers generally the contract terms varies from customer-to-customer, some of the customers have three-year contract, some have 10-year contract and some have open ended contracts also.
- Jasbir Singh:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Ankur Sharma from HDFC Life Insurance. Please go ahead.
- Ankur Sharma:** My first question was on the end demand from some of your customers and given the fact that the rains have continued well into November, so what have we seen over Q2 that is October and now have you seen some sort of inventory increase either at your end or at the customer end and assuming secondaries could have been slow so what are you seeing there?



*Amber Enterprises India Limited  
November 08, 2019*

- Jasbir Singh:** Actually there is a mix complete bag of inventory at the different brands, if I see some of the brands they are not carrying inventories they have in fact started they are bullish on next quarter so they have started building on inventories now from mid of November onwards. There are some brands that are carrying inventories who are trying to liquidate those inventories, so it is a complete mix because there are about close to about 42 players competing with each other in the markets so none of them is carrying a similar kind of inventories.
- Ankur Sharma:** But at the industry level would you say things are broadly normal higher or?
- Jasbir Singh:** No, it is very, very normal because after strong summers, if you see September numbers also which is quite a lean season for us Q2 and Q3 are the leaner season for us and good numbers reflect that the industry is not having more inventories with them.
- Ankur Sharma:** Sir my second question was that we are hearing that Xiaomi could be looking at entering in India maybe starting next year, so are you in talks with them or have you got feelers from them?
- Jasbir Singh:** Yes, we have already met the management twice and we continue to keep a tab and of course we are a solution provider so we would love to give solutions to them as and when they come to India.
- Ankur Sharma:** And lastly Sir if you could just give us the subsidiary sales and EBITDA number for the quarter I think you gave for the first half and also what is your expectation for the full year if you can share that for the subsidiaries?
- Jasbir Singh:** For the subsidiaries yes we can share.
- Ankur Sharma:** So for the quarter and the sales and EBITDA margins here.
- Jasbir Singh:** PICL in H1 we have done 84 Crores and in quarter Q2 is 34 Crores and for IL Jin H1 is 166, and Ever is 154 and Q2 is 66 and Sidwal 93 is H1, 63 is Q2.
- Ankur Sharma:** The EBITDA number Sir?
- Jasbir Singh:** So EBITDA on the quarter basis?
- Ankur Sharma:** Yes, please the quarter.



*Amber Enterprises India Limited  
November 08, 2019*

- Jasbir Singh:** Okay 1.54 Crores is Q2 EBITDA for PICL, 4.33 for IL Jin, 3.17 for Ever and 14.18 for SRIPL.
- Ankur Sharma:** For the full year would you be able to share what kind of numbers you are looking?
- Jasbir Singh:** No, we do not know exactly how Q4 will be looking like, but yes I mean order book is strong and the subsidiaries order books are also very strong.
- Ankur Sharma:** Great Sir, this is very helpful and that is it Sir. Thanks.
- Moderator:** Thank you. The next question is from the line of Dipan Mehta from Elixir Equities. Please go ahead.
- Dipan Mehta:** Yes, Sir Congratulations on good set of numbers. I have two questions, one is can you disclose what is the client concentration highest client is contributing what percentage of the sales and second and third so on and so forth and second question I can ask after that?
- Jasbir Singh:** So our client concentration on a consolidated basis is what, top client is LG right now contributing about 17% to 18% then we have two customers Voltas and Panasonic, which are contributing in range of 14% to 15% and then we have other set of customers like Blue Star, Hitachi, Daikin, and many others.
- Dipan Mehta:** And second question is that when you sell on Amazon and Flipkart so the brand is whose brand Amazon, Flipkart brand or is it your brand can you just throw some more light on what exactly the arrangement?
- Jasbir Singh:** No, we do not have our own brand we are a solution provider in the industry.
- Dipan Mehta:** Sir my question was what exactly the arrangements with Amazon and Flipkart that are you supplying to them and they are selling it under their own brand or what exactly is the arrangement Sir?
- Jasbir Singh:** All these online players they have their own private labels so Amazon has got Amazon Basics, Flipkart has brand name called MarQ.
- Dipan Mehta:** Okay Sir thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Devrath Himatsingka from Jet Age Securities. Please go ahead.



*Amber Enterprises India Limited  
November 08, 2019*

**Devrath Himatsingka:** Congratulations on a great set of numbers, I just had one question I mean I joined the call late so I kind of must have missed out on this, what kind of guidance do we see on the margins going forward in FY2020?

**Jasbir Singh:** The margins would be similar range bound we are expecting our EBITDA in the same range of 8% to 9% range going forward.

**Devrath Himatsingka:** In the first half you done like 8.2% so can you say that this can expand to like 9% going forward like on the higher end?

**Jasbir Singh:** Well our endeavor is definitely to expand but then again as I mentioned that it all depends on how the sales goes on and what kind of product mix happened in the Q4, but yes there is margin expansion, which is going on in which is very evident also in our subsidiaries level also so we are endeavoring but let us see how Q4 goes.

**Devrath Himatsingka:** And my second question would be that the weather forecast is like we might see like a longer winter this year so in that case would it like impact you're Q4?

**Jasbir Singh:** As of now none of the customers have reduced the orders they are all bullish as I told you that some of the customers are building inventories in anticipation of good summer, but if it impacts, that if the winter get extended that means the sales will actually overlap into Q1 numbers. So yes, there could be hampering in case the winter gets extended to February or maybe mid March.

**Jasbir Singh:** Okay that is all from my side. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Ashutosh Garud from Avendus. Please go ahead.

**Ashutosh Garud:** Congratulations on a very good set of numbers, so you just mentioned about your market share within the outsource market being 57% so how has this market share moved for you in the last two, three years?

**Jasbir Singh:** I will tell you about the outsourcing so outsourcing in the industry was only 16% six years back which has now gradated to 38% and we were to just a year-and-a-half back we were about 55%, which is moved by another 2% to 3% range.

**Ashutosh Garud:** No but let us say what was this percentage let us say four, five years back for us?



*Amber Enterprises India Limited  
November 08, 2019*

**Jasbir Singh:** We do not have numbers in handy, but in a range bound if I want to tell I mean we should be around close to about 40% or maybe 38%.

**Ashutosh Garud:** So do you mean to say you have been gaining market share within the outsource market?

**Jasbir Singh:** That is right.

**Ashutosh Garud:** And how intense is the competition as far as this outsources marketing players the manufacturers are concerned?

**Jasbir Singh:** Competition keeps on changing its landscape so earlier it was China now their import duty is imposed, but still there are Chinese companies, which are trying to because the currency has depreciated in China by 4% they have given more subsidies to exports, earlier there used to be 13% as export subsidy now they are giving 17%, so they are also trying to compete so it will all depend how government takes the import in which direction it goes, but I think for us it should be like because we keep on adding new products and we keep on adding wallet share, we keep on increasing, our endeavor is to increase wallet share with our customers that is where the growth comes from and now because our non-RAC component is also gaining momentum we have a strong company Sidwal, which is also gaining momentum in the mobile air conditioning space where we do not have a Chinese competition. So, we see quite positive numbers for Amber that is why we always give guidance that whatever industry will do we will try to outnumber the industry by 4% to 5%.

**Ashutosh Garud:** And lastly most of your production is sold by your customer and it is only in domestic market or it is or you would not know?

**Jasbir Singh:** No, no we have some of our consignments to Qatar, Oman, Nigeria, Bangladesh, Sri Lanka also for different brands so exports is picking up but on a percentage basis it is not contributing substantially right now.

**Ashutosh Garud:** Thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Anirudh from JM Financial. Please go ahead.

**Anirudh K:** Congratulations sir on a very good set of numbers. Two questions from my side. In line of the 15% tax rate, which has been announced for Greenfield capacity do you see any material change in the trend of outsourcing of RAC that is happening would it make sense for OEMs to kind of undertake the manufacturing themselves one and second is in line of



*Amber Enterprises India Limited  
November 08, 2019*

the Greenfield capex, which you are trying to come up in Tirupati or the new location as you suggested would it be through the 15% route?

**Jasbir Singh:** See we are still waiting for the ordinance to get cleared because the notification will come after once the ordinance is passed so that is expected to happen once the parliament sits I think the more clarity will come, yes we have been evaluating this whether we should bring up subsidiary and then bring up a Greenfield facility, so first let the clarity come and then we will decide accordingly.

**Anirudh K:** And about the trend of outsourcing how do you expect that?

**Jasbir Singh:** I do not think so because definitely there is a gain from brand side but what brands are endeavoring is that they are passing on this corporate tax cut to customer to gain their market share that this I am getting into manufacturing because brands movement if you see the trend of brands in last 10 years they are moving towards asset light strategy. So just saving of 10% on the PAT level is not a great decision because if somebody has to invest in RAC you need at least good amount of 400 to 500 Crores to invest for own Greenfield facility at the brand level if they want to do a good kind of a facility as well. So, having 10 or 15 Crores benefit will not be impact for getting into manufacturing.

**Anirudh K:** And lastly by when do you expect the existing MAT to kind of run down?

**Jasbir Singh:** For at least this year we are seeing and maybe that is maximum by next year.

**Anirudh K:** Yes, okay so you will move to the new tax structure from FY2021 or 2022?

**Jasbir Singh:** Yes right.

**Anirudh K:** Alright. Thank you.

**Moderator:** Thank you. The next question is from the line of Mehul Mehta from SPA Securities. Please go ahead.

**Mehul Mehta:** My question is with regard to sequentially, if we look at there is profitability drop across subsidiaries so what would be the reason for that?

**Jasbir Singh:** No,

**Mehul Mehta:** OPM level.



*Amber Enterprises India Limited  
November 08, 2019*

- Jasbir Singh:** Yes it is increasing, if you see PICL was negative last year it is positive now.
- Mehul Mehta:** No quarter wise I am talking sequentially Sir.
- Jasbir Singh:** So can you elaborate sequentially means?
- Mehul Mehta:** Yes, PICL if I look at like profitability in Q1 FY2020 EBITDA margin was about 7.6% if I am not wrong and is at 4.4% during current quarter.
- Jasbir Singh:** We are into air conditioning industry so this is a lean season going on, your expenses do not reduce to that level as the sales goes down so that is a normal trend of the industry it is nothing unique to Amber entire air conditioning industry would be facing this problem.
- Mehul Mehta:** Even on components, subsidiary side also it is similar kind of like I can understand.
- Jasbir Singh:** Yes.
- Mehul Mehta:** One more question was on capex side when we are talking about these 100 Crores capex for certain capacity what would be the number of units like and that would be installed capacity for that 100 Crores which you are talking about?
- Jasbir Singh:** Close to about assembly units of about 1 million.
- Mehul Mehta:** So, this is Greenfield 1 million is about 100 Crores that is what you are saying and Jhajjar, which the capacity has come up last year so what would be in that case capex and how many units kind of if you can tell?
- Jasbir Singh:** Again we have almost invested the same amount so we have added but Jhajjar has been expanded from 2012 onwards till date so there are two plants basically Jhajjar one and Jhajjar two so one is largely catering for components and other one is being assembly but all put together we have a capacity of 1.5 million Jhajjar at the moment.
- Mehul Mehta:** 1.5 million is current capacity at Jhajjar you are saying?
- Jasbir Singh:** Yes.
- Mehul Mehta:** That has come up over like in you are saying since 2012?
- Jasbir Singh:** That is right yes.



*Amber Enterprises India Limited*  
*November 08, 2019*

- Mehul Mehta:** And cumulative capex for the same would have been?
- Jasbir Singh:** Cumulative capex for the same would have been in a tune of 160 Crores range.
- Mehul Mehta:** So Jhajjar even was Greenfield kind of like since 2012 it has come up or it was Brownfield?
- Jasbir Singh:** We invested about 58 Crores initially in 2012 and then we have added capex over a period of year.
- Mehul Mehta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rushil Shelarka from Pioneer. Please go ahead.
- Rushil Shelarka:** Congratulations for the good numbers. Sir I just wanted to understand that the AC currently we are having a strong order book because the AC sector the air conditioner sector is doing great and other sectors are not doing so great so going forward how do you see the air conditioner sector let us say in next one or two years like are we seeing any growth or will see that the growth will slow down in the sector two.
- Jasbir Singh:** Well it is very difficult to predict in this manner, but largely because if you see the broader parameters of power adequacy increasing, per capita increasing and this is a product, which goes in multiple numbers in household like refrigerator you may have one or maximum two refrigerators whereas you end up having five or six air conditioners so we think that it is a product, which has now penetrated at a level where especially the younger generation who are going in air condition schools if you see where these younger millionaires they cannot stay without air conditioners and replacement cycles of air conditioners are reducing earlier people used to replace their air conditioner in 13 years now they are replacing in seven to eight years so these all factors will definitely pose a quality growth of course it can be hampered because of rains but then the sales get shifted in next quarters. So, on a broader basis long-term view of market is very positive for us I think from my point of view industry should continue to grow in 15% to 20% range in next two to three years.
- Rushil Shelarka:** And Sir like going forward the incremental order book are we going to see from TVs and mobile some other sectors come from TV and all?
- Jasbir Singh:** We are not into that space, so I do not see that, we are not intending to enter also into TVs.
- Rushil Shelarka:** Okay Sir. Thank you.



*Amber Enterprises India Limited  
November 08, 2019*

**Moderator:** Thank you. The next question is from the line of Pankit Shah from Stock Axis. Please go ahead.

**Pankit Shah:** I would like to understand that what is the nature basically of intangible assets under development have been more than doubled if you compare with last year from 90 it has risen up to more than 210 Crores if you can help me with the nature?

**Jasbir Singh:** So the nature of this product development is the new products, which we are developing for the more efficient products and we have a largest R&D capacity, setup in Rajpura having more than 100 engineers so they are developing new products, new components and intangible in product development is not doubled in the last one year I think you have to see from the capitalized R&D product development and there is a under process R&D as well so you have to combine both the things and see how the R&D expenditure has increased over the period.

**Pankit Shah:** But what we are adding it to it, but we are seeing the benefit over how many years if you can tell me?

**Jasbir Singh:** So currently the benefit is coming in a range of six to seven years because product life is that kind of a life.

**Pankit Shah:** And one more I wanted to understand that how big is the export opportunity?

**Jasbir Singh:** Export opportunities can be quite big given if export incentives are announced because there is a disability factor of about 7% to 8% with China right now, but geographically nearer places like MENA region and all we are becoming competitive and we have started exporting so our component exports have started, we have also shipped some containers for air conditioners. As China is getting expensive day-by-day so people are shifting to China plus one strategy now. There is lot of inquiries, but it takes time because the air conditioner is one product, which every country has a bureau of energy rating applicability on air conditioners. So first the models have to get approved from b) of that country and then the brand has to register it is a long process, we have started the process, we have a dedicated export team in R&D, which is developing models basically for those regions, keeping in those regions and it is gaining momentum but it is at a slow pace right now, but on a long basis if I see on a 10-year horizon it can become a big opportunity.

**Pankit Shah:** How much it is currently contributing and when there will be some sizeable contribution from this?



*Amber Enterprises India Limited*  
*November 08, 2019*

- Jasbir Singh:** Currently on a yearly basis this export contribution is about 80 to 90 Crores at the moment.
- Pankit Shah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Hiren Trivedi from Axis Securities. Please go ahead.
- Hiren Trivedi:** Congratulations on good set of numbers. Just one question the gross debt on consolidated debt level is around 360 Crores correct me if I am wrong and what is the approximate interest cost and any plans to reduce this debt going forward?
- Jasbir Singh:** So on a consolidated basis consolidated net debt is around 340 Crores and it should further decreased by year end as well so as in the last call we have said that earlier in the last Q1 the net debt was around 380 Crores it is reduced by 40 Crores in the Q2 and it will further reduce and we are estimating it should be nearer to around 310 to 320 Crores.
- Hiren Trivedi:** And approximate interest cost in terms of percentage Sir?
- Jasbir Singh:** In terms of percentage on a working capital side the interest cost is below 9% and on a term loan side long-term it is around 9% to 9.5%.
- Hiren Trivedi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Jaykant Kasturi from Way2Wealth. Please go ahead.
- Jaykant Kasturi:** Yes, Sir this is regarding, I can see your other income negative both at the consolidated and standalone level any particular reasons?
- Jasbir Singh:** So other income negative is because of our foreign exchange loss.
- Jaykant Kasturi:** Sir and other thing is your overall share in the RAC sales in terms of as it was like 13% if I was not wrong it is 13%.
- Jasbir Singh:** Sorry come again.
- Jaykant Kasturi:** Your share in the RAC segment, which was 12%, 13% what is currently?
- Jasbir Singh:** 63% is our RAC sales now are you asking a revenue breakup or you are asking the market share?



*Amber Enterprises India Limited  
November 08, 2019*

- Jaykant Kasturi:** I am talking about the market share.
- Jasbir Singh:** So we remain in the range of 18% to 19% of the market.
- Jaykant Kasturi:** Thank you Sir.
- Moderator:** Thank you. Next question is from the line of Rajiv Mehra from JM Financial. Please go ahead.
- Rajiv Mehra:** Congrats on a good set of numbers. Sir just wanted to get a bit more clarity on the tie-up with Flipkart and Amazon Basics, which you have done and what is the quantum of it already, revenue is there and if you already started manufacturing for Amazon Basics and how is that really going to pan out if you could just throw some more light on it?
- Jasbir Singh:** For online customers we have delivered about close to about 80,000 units in H1 because they started in Q1 so we are expecting a good number in Q4.
- Rajiv Mehra:** And for the next couple of years how has this trend really going to pan out I mean do you really see a very big portion coming from these online sales is there a significant trend moving towards an upward profile trajectory out here?
- Jasbir Singh:** Well we would like that they should buy everything from us, but it is up to them if we continue to give them more energy efficient models I think this number should definitely grow exponentially as the online trend is also growing positively.
- Rajiv Mehra:** Alright Sir. Thanks.
- Moderator:** Thank you. Next question is from the line of Vineet Prasad is a followup question from Investec Capital. Please go ahead.
- Vineet Prasad:** Just one thing on working capital it appears that your working capital has improved substantially can you throw some light on how working capital for Sidwal has moved and should we expect further reduction in working capital there?
- Jasbir Singh:** So when we acquired Sidwal the networking capital days were about 180, which actually came down to 93, so there is quite a good improvement in networking capital days of Sidwal.
- Vineet Prasad:** And how it should pan out going forward it should remain in the similar range or is there any further scope of reduction?



*Amber Enterprises India Limited  
November 08, 2019*

- Jasbir Singh:** My team believes that there is a further reduction possible on a long-term basis and they are working on it, but because it is a government related order book so I think sustainable level should be somewhere in the range of 75 days.
- Vineet Prasad:** And just one more can you quantify forex loss in this quarter and as well as in the base quarter?
- Jasbir Singh:** In H1 the forex loss is 1.8 Crores on a standalone basis Amber and on a consolidated basis it is 1.8 Crores similar level loss amount on a consolidated level as well.
- Vineet Prasad:** And how was that in Q2 specifically?
- Jasbir Singh:** I was telling about the forex loss in Q2 so on a standalone it is 5 Crores in Q2 and consolidated is 5.5 Crores.
- Vineet Prasad:** Thanks Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Adit Makhijani from IDFC Securities. Please go ahead.
- Adit Makhijani:** I would like to understand your current debt is on a standalone basis 228 Crores and 340 on consolidated basis so going forward with the south plant coming up what do you see the peak debt levels as and what debt by equity ratio you are comfortable with?
- Jasbir Singh:** See Tirupati plant is a little delayed plant, which we are having I think we might go for investment in southern region in next year that will also be spread out in two financial years, so we do not expect that there will be a further increase in the debt levels as company is generating good cash flow in the last H1 as well as going forward.
- Adit Makhijani:** And also Sir I might have missed out on the ODU, IDU, window volume numbers if you could help me with the same for Q2?
- Jasbir Singh:** So Q2 IDU number was 2.17 lakhs, ODU is 1.27 and window is 67,000.
- Adit Makhijani:** Thank you so much Sir.
- Moderator:** Thank you. Next question is from the line of Nirav Vasa from Anand Rathi. Please go ahead.



*Amber Enterprises India Limited  
November 08, 2019*

- Nirav Vasa:** Sir we were in process of getting empaneled with one of the leading Korean manufacturer for their global supply chain any update on that?
- Jasbir Singh:** So we have on boarded Samsung.
- Nirav Vasa:** And Sir what is the kind of volume that like can you elaborate more how we are going to get there like what is the scope of opportunity coming there?
- Jasbir Singh:** We have started supplying two models with them and we are endeavoring that different models we plan to increase the wallet share within the customer. We will not be able to give you breakup of the volumes because it is sensitive information for all of them and they specifically ask us not to disclose it.
- Nirav Vasa:** So this is for the Samsung's global operation am I right?
- Jasbir Singh:** No, it is called domestic operations we may end up exporting it we do not know.
- Nirav Vasa:** So that has actually been done from our existing plants only so there is no new capex for that?
- Jasbir Singh:** No, nothing.
- Nirav Vasa:** Great Sir. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen that would be the last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you.
- Jasbir Singh:** Thank you everyone for joining us. I hope we have been able to answer all your queries, in case you require any further details you may please contact us or our investor relations advisor strategic growth advisors SGA. Thank you everybody.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Amber Enterprises India Limited that concludes today's conference. Thank you all for joining us. You may now disconnect your lines.