Date: 27.10.2022

To
Secretary
Listing Department

BSE Limited
Department of Corporate Services Phiroze Jeejeebhoy Towers Dalal Street, Mumbai – 400 001
Scrip Code : 540902
ISIN : INE371P01015

To
Secretary
Listing Department

National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex, Mumbai – 400 050

Scrip Code : AMBER
ISIN : INE371P01015

Dear Sir/Ma'am,

Subject: **Earnings call transcript of financial Results of 2nd Quarter and Half Year ended 30 September 2022 conducted after the Meeting of the Board of Directors, held on 22 October 2022 at 10.00 a.m.**

Pursuant to the relevant provisions of SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, as amended, please find enclosed Earnings call transcript of financial Results of 2nd Quarter and Half Year ended 30 September 2022 held on 22 October 2022 at 10.00 a.m.

This information will also be hosted on the Company's website at www.ambergroupindia.com.

The audio recordings of the earnings call are also made available on the Company's website, at link: www.ambergroupindia.com/wp-content/uploads/2022/10/Amber-Q2FY23-Earnings-Call-Recording.mp3

We request you to kindly take this on your record and oblige.

Thanking You,
Yours faithfully
For **Amber Enterprises India Limited**

KONICA YAADAV
Digitally signed by KONICA YAADAV
Date: 2022.10.27 17:29:50 +05'30'

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"Amber Enterprises India Limited
Q2 FY '23 Earnings Conference Call"
October 22, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 10th August 2022 will prevail

MANAGEMENT: **MR. JASBIR SINGH – CHAIRMAN & CEO – AMBER ENTERPRISES INDIA LIMITED**
MR. DALJIT SINGH – MD – AMBER ENTERPRISES INDIA LIMITED
MR. SUDHIR GOYAL – CFO – AMBER ENTERPRISES INDIA LIMITED
MR. SANJAY ARORA – CEO – ELECTRONICS DIVISION –AMBER ENTERPRISES INDIA LIMITED
MR. SACHIN GUPTA – CEO – RAC & CAC DIVISION – AMBER ENTERPRISES INDIA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Amber Enterprises India Limited 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 remainder all participants 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 star and then zero on your touchtone telephone.

I now hand the conference over to Mr. Jasbir Singh, Chairman and CEO, Amber Enterprises India Limited. Thank you, and over to you, sir.

Jasbir Singh: Hello, and good morning, everyone. Wishing all a very happy Diwali and a prosperous new year ahead. On the call, I am joined by Mr. Daljit Singh, Managing Director; Mr. Sudhir Goyal, CFO; Mr. Sanjay Arora, CEO Electronics Division; Mr. Sachin Gupta, CEO RAC & CAC Division; and SGA, our Investor Relation Advisors.

We have uploaded our result presentation on the exchanges and I hope everybody had an opportunity to go through the same. Room air conditioner industry witnessed a dull period of July '22 to mid-September '22, due to BEE star rating change with effect from July 1, 2022, and unprecedented and untimely rains in the month of August and September 2022.

Secondary sales didn't pick up to the desired levels due to above 2 factors. However, as industry is now at normalized inventory levels, we expect good growth in quarter 3 and quarter 4 FY '23. Other divisions, such as mobility, motors and electronics witnessed a decent growth due to additional new customers, products, and geographies.

Coming to the performance of Amber Group; the RAC and components division witnessed a revenue growth of 99% in H1 FY 2023,clocked revenue of INR 1,797 crores versus INR902 crore in H1 FY 2022 and currently contributes 70% to the total revenue.Similarly, motor, electronics and mobility divisions are growing at a good pace and have been a significant contributor to the revenue growth.

RAC and components, motors, electronics and mobility division, now contributes 70%, 5%, 17%, and 8%, respectively, to the total revenue. Our standalone revenue saw a decline this quarter owing to ramped channel destocking on account of the change in BEE star ratings. Other expenses, rose on a standalone basis on account of Forex loss of INR 7.5 crores and fixed overheads due to operationalization of new brownfield and greenfield facilities, which will come to normalized levels by next financial year.

On the CapEx front, we intend to incur a total CapEx of INR 600 crores for the year FY 2023. Our new greenfield facility, SriCity facility, will be operational by Q3FY23 .

Moving on to the divisional performance. First, RAC and components division. This division saw a revenue growth of 85% over H1 FY '22 and RAC clocked a revenue of INR 1,213 crores in H1 FY '23 versus INR 654 crores in H1 FY '22.

Components division is growing at a faster pace and grew at 136% over H1 FY '22. Revenues stood at INR 585 crores versus INR 248 crores. The growth is primarily fueled by a strong order book, new customer addition and expansion in newer geographies, like Chennai and Pantnagar areas. The ROCE for this division stood at 9% for H1 FY '23.

Regarding Motors division; for H1 FY '23, Motor division grew 71% to INR 130 crores versus INR 76 crores in H1 FY '22. Operating EBITDA stood at 11.5% for H1 FY '23 versus 9.2% in H1 FY '22. ROCE for the division improved dramatically to 20% from 11% in H1 FY '22.

We have shifted to a new larger facility in Faridabad to cater the future growth within this division, received BLDC approvals from few customers and few are in process right now and is expected to be received in coming quarters. On the exports front, approval from export customers are in process and expect to receive large orders in FY '24.

The strong order book with new product addition and geographical expansion gives us visibility of more than 30% growth for FY '23.

Coming to Electronics Division, which includes ILJIN and EVER. Revenue for the division for H1 FY '23 was INR 449 crores, representing a growth of 129% over H1 FY '22.

Operating EBITDA stood at 3.8% versus 2.6%. ROCE for H1 FY '23 was 19% versus 10% in H1 FY '22. We have successfully scaled up our supplies to boAt as a customer for new-age applications like smart wearable and hearables which has opened a huge opportunity for this division, segment is expected to grow further, as we have added new few large customers and have accordingly expanded our capacity down south. Supplies to boAt has opened up large sectorial opportunity and expect this division to grow at a faster pace.

Regarding Mobility Application division, which includes Sidwal, revenue of the division grew by 65% in H1 FY '23 to INR 200 crores versus INR 121 crores in H1 FY '22. Operating EBITDA stood at 25.5% versus 24% in H1 FY 2022. ROCE improved significantly to 51% from 44%. Increased impetus on infrastructure development and comfortable journey is providing a large opportunity for growth in this division.

Apart from HVAC solution, we are exploring new applications to increase our share of business in the existing customers, as well as by adding new customers. Our order book for this division stands at INR 650 crores as of now.

I will now take you through the consolidated financial highlights. On the revenue side, for H1 FY '23 revenue stood at INR 2,576 crores versus INR 1,295 crores in H1 FY 22, marking a growth of 99%.

For the quarter Q2 FY '23 revenue stood at INR 750 crores versus INR 587 crores in quarter two FY '22, a growth of 28%.

On operating EBITDA side for H1 FY 23 operating EBITDA INR 182 crores versus INR 88 crores in H1 FY '22, a growth of 106%. For quarter two FY 23 operating EBITDA stood at Rupees 52 crores versus INR 39 crores in quarter two FY '22.

Operating EBITDA margins for H1 FY '23 and quarter two FY 23 stood at 7.1% and 6.9% respectively. Quarter two FY '23 and quarter two FY '22 operating EBITDA is before the impact of ESOP expense and other non-operating income and expenses.

On finance cost. For quarter two FY '23, there was an increase in finance cost to INR 24 crores as compared to INR 6 crores in quarter two FY '22. The increase in finance cost is largely due to the CapEx incurred during the period and increased interest rates. This has resulted in a PAT loss of INR 2 crores, in quarter two FY '23.

Net interest costs of H1 FY '23 is actually INR 25 crores against gross interest cost of INR 45 crores, as we have an interest income of INR 20 crores in H1 FY '23. On PAT levels, PAT for H1 FY '23 was INR 41 crores versus INR 19 crores in H1 FY '22.

ROCE for H1 FY '23 improved to 12%, whereas the net working capital days drastically dropped to 39 days for September '23 from 93 days in September '22. Despite all the external challenges, we at Amber remain committed to creating synergies through our strategic collaborations, driven by an industry experience of 3 decades and robust capabilities, we continue to explore better opportunities with an intent to expand beyond our current geographical presence.

I now hand over for the Q&A session. That's all from my side.

Moderator: Thank you very much. Ladies and gentlemen. We will now begin the question and answer session. Anyone, who wishes to ask the question may press star and one on the touchstone telephone. If you wish to remove yourself from the question queue. You may press star and two. Participants are requested to use handsets while asking a question. Anyone who has the question may enter star and one. Ladies and gentlemen we will wait for a moment, while the question queue assembles.

We'll take the first question from the line of Sonali Salgaonkar from Jefferies India.

Sonali Salgaonkar: Hi, Jasbir and team. Thank you for the opportunity and wishing you all a very happy Diwali. Sir, my first question is regarding the current demand environment, what are the initial feelers that you are getting, starting in October and the festive season? And you did mention that inventory is at a normalized level. But, I mean, are you seeing a normalized level across the SKUs in air conditioners for a particular name or a mass premium segment?

Moderator: Ladies and gentlemen, thank you for your patience. We have the line for management connected. Ms. Salgaonkar, may we request you to please repeat your question.

Sonali Salgaonkar: Yes, Sure. My first question is regarding the demand scenario currently. So getting into October, what are the initial feelers that you're getting about the festive demand? And also the inventory levels currently in the channel?

Jasbir Singh: So demand, what we are seeing is there's a lot of optimism from our customers' side, looking at the forthcoming season, and a couple of customers are planning to gear up for the inventories for the forthcoming season in Q3. And Q4, everybody is expecting a good summers. So in anticipation of that, demand scenario for Q3 is much better than what it was in Q2.

As far as the inventory levels are concerned, the industry is not sitting at any large inventory levels. It's a very normalized inventory level. We saw sluggishness in July, because this is the first time that BEE table got revised in the middle of the year. Normally it gets revised by 1st of January. And what happens is that the retail sector, they start picking up the goods in anticipation of selling them in February and March. But whereas for July season, it went opposite, because we were entering into a leaner period, so there was no uptake on the secondary side basically. But got corrected, but then there was some disruption in quarter 2 because of unprecedented and untimely rains, especially in the North area.

But now everything is back to normal, order book is getting stronger, and we look forward for a good quarter 3 and a much better quarter 4.

Sonali Salgaonkar: Understood. Sir, do you foresee any impact of this BEE revision in Q3 as well, in terms of a bit of destocking left?

Jasbir Singh: I think very slight impact would be there in case it is there. But largely now, as markets have digested the kind of increase or the shift in the Star rating. So I think now, what we talk today is we are talking on the normalized levels.

Sonali Salgaonkar: Right. Sir, and would you like to update us on the price revisions that you have taken in air conditioners. See, because of this new BEE rating, and do you think that will positively impact the margin? So do you think it will be neutral on the margins?

Jasbir Singh: So there are two impacts basically. One is, as explained earlier also that we pass on our prices on a quarterly lag basis, largely on the commodity side, so that has been done successfully. You will see the difference in quarter 4 for that. And as far as the BEE table impact is concerned, couple of customers, they actually changed the complete model lineup from January itself. So there is no impact in those customers. The customers who impact, who changed it in July, for them the change has happened already. There is a gap of almost about INR 800 to INR 1,200 per AC, which has been taken and adapted and so have we done in our models.

Sonali Salgaonkar: Right. So you are saying the average price hike is INR 800 to INR 1,200 per AC?

Jasbir Singh: Yes. I mean, it will vary from model-to-model, but on an average that is the range.

Sonali Salgaonkar: Understood. Sir, and my last question is, in terms of the PLIs, any update you would like to share on the progress in the PLIs, and when do you foresee for us to start getting the incentive? And also an ancillary question, what do you plan to do with the PLI incentive? In the sense, do you plan to share a majority part of that back with the brand owner, or do you intend to keep that with you?

Jasbir Singh: So for PLI, the update is that, we've got approval regarding our PLI application a couple of quarters back. We were, in fact, the first one to submit our application and get the approval for that. So threshold of investments are moving on track, which is the first parameter of getting approved, as eligibility criteria is concerned. So, and we are also moving very much on track, as far as the incremental sales is concerned. So, this year will be the first year of demonstrating the incremental sale and next year, basically, we will get the PLI benefit for this year, from Government of India. We are moving very much on track. There is no lag on the threshold of investment and the incremental thing.

Moderator: Thank you. Our next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Yes. Sir, the debt on the balance sheet has gone up, despite a non-season and some correction in working capital too. So how do you see the debt repayment plan over next 1 year, 1.5 years playing out? And sir, secondly, the margin range of the company, EBITDA margin range seems to have come down from the way the earlier EBITDA margin range used to be. So do you see the EBITDA margins moving structurally back to around 7% to 8% range, and by when?

Sudhir Goyal: Hi Aniruddha. First on the net debt level, which is at present INR 662 crores, as on 30th September at console level. So this is largely due to the seasonality in the business, as we have a larger credit period from the creditors, which gets paid during the off-season, and the CapEx which we have done during the H1 financial year 2023. So this will get normalized by year-end, because this is a cycle in which we are working on.

And on the other side, on the margins in terms of percentage, so as we explained earlier that we don't look at the margin in terms of percentage. Reason is that, there are lot many changes happen due to product mix, due to commodity price hike and due to currency exchange rate change as well. So, percentage margin is not the right criteria to see the profitability. So, we also internally check on the absolute amount of EBITDA, how we are growing that on a year-on-year basis.

Aniruddha Joshi: Sir, basically, I mean the point is the return ratios have gone below the -- in a way, cost of capital now. So it's almost closer to 10% or less than 10%. So, how do we see either the margins should improve or the overall asset turn should improve? So how do we see basically the return ratios are moving back to earlier 13%, 14% kind of a -- or higher than that range?

Sudhir Goyal: So we are expecting that ROCE to be improved by 200 to 300 basis points in the current financial year by year-end. And post that, further we are expecting that 200, 300 basis point in the next year. And if you see the other divisions, they are performing well and those are contributing in a good way during the off-season as well, because there the seasonality is not that much, which is there in the RAC business.

Aniruddha Joshi: Okay. Sure sir. Sir, last question, what is the PLI benefit that the company is looking at for year FY '23 and any indicative amount that also for FY '24 also?

Sudhir Goyal: Yes, so PLI benefit is the fixed amount. So first year based on the incremental threshold, we will get INR 15 crores and the next year, it is INR 30 crores.

Moderator: Thank you. We'll take our next question from the line of Madhav Marda from Fidelity. Please go ahead.

Madhav Marda: I just wanted to understand very basic question, though our profitability is serious, these one-off cost impacts from ESOP, the loss of sale of fixed assets, ForEx M2M etc.. Last I think 2 quarters or 3 quarters. Firstly with ESOP, when does this impact start going away? Like this is just until FY '23 or does this continue beyond that?

Sudhir Goyal: So ESOP expenses, we have like ESOP policy, as per ESOP policy it will be amortized over 4 years of a period. So first year it is always a larger impact and going forward it cut down to the lower, a very lower level, almost half of the first year in the next year. And since as you know that last year we announced the first ESOP scheme, and this year also we gave the ESOP for the further employees, down employees further. So that is why this year, there will be a larger impact. Going forward, it will be cutting down to half of the current level ESOP expenses.

Madhav Marda: So year 1, the impact was about INR 16 crores, if I'm not wrong? if I have the number right? So you think this year, it should be INR 8 crores because you already have a INR 13 crores impact in first half, right? So, or is it a more runrate basis, it should start coming down?

Sudhir Goyal: So this year, the total should be around INR 25 crores -INR 26 crores, and next year it will come down to almost like, I don't have the exact number, but around INR 12 crores -INR 13 crores.

Madhav Marda: Okay. And then also on the -- I think you do give guidance for number of RAC units that we sell in the standalone business. Could you give any sort of target for FY '23, and also if you could give the number for Q2 as well, how many units have we...

Jasbir Singh: Madhav, actually, since we have started tracking on the value-based proposition, so volumes -- we would not like to guide anything on the volume side, but what we would like to guide everybody is that on a value-based part of the complete industry, we will continue to maintain our market share of 26% and above. That is what we need to guide, and because we have -- this has become a very -- volumes have become a very sensitive information to the company, because recently, in couple of months back, some of the customers, they started interacting us, looking at the volume-based proposition, and that was not a good part. So we've started tracking the complete proposition on the value-based. And now since this quarter also, you must have seen that our components have outnumbered the RAC well on the revenue side also, so it becomes very important for us to track on the value proposition.

Madhav Marda: Okay. Got it. So could you just give, I think for the motor division, you all have given the outlook in the PPT very clearly, which is 30% growth. Could you give the guidance for the electronics, Sidwal and standalone, just what kind of growth are we expecting? I think you usually give some guidance at each quarter, about how we are looking at the year?

Jasbir Singh: Yes. So Electronics, we would like to guide for about 35% growth and Sidwal, we are about 20% growth story, right now. And our order book is also catching up positively. On both the divisions, it's a good traction which we are seeing.

Madhav Marda: And what about the standalone components that has been growing at a very good pace, like last many quarters? So anything on that side?

Jasbir Singh: Yes, components will grow more. I think our strategy is very clear that, in the whole eco-chain of the manufacturing footprint, we should be available whether somebody wants an air conditioner or somebody wants components. Full kit or half kit doesn't matter to us. So, I think component side will grow faster than the industry.

Madhav Marda: Okay. And just last question was, any update on the exports? I think we're doing a lot of initiatives on trying to get the approvals and get the models etc. in place. So, just where are we placed, sir?

Jasbir Singh: So on exports, motors have started seeing positive traction, and that's what we mentioned also that, we are expecting some very good orders coming by next financial year. What happened was, because of the two years, people did not travel to India, and now recently in last three months, we have been visited by our larger customers, who we were interacting with earlier, and they have liked the facilities, the product approvals are under process. So once the reliability assessments are done, I think you will see the exports moving up from next year onwards on the motor front.

As far as the finished goods are concerned, we are at level 2, where some of the model lineup has been ready and now the BEE table approvals are going on in some of the geographies, which we expect to be cleared by next financial year. And then post that, we should expect some orders coming in.

Madhav Marda: So safe to assume some orders in FY '25 or FY '24 for finished goods?

Jasbir Singh: Yes, we should expect in FY '25 on the finished goods side.

Madhav Marda: Okay, thank you.

Sudhir Goyal: And Madhav, on the ESOP, next year it will be around INR 17 crores.

Madhav Marda: INR 17 Crores. And then FY '25, it should go down even more, right?

Sudhir Goyal: Yes.

Moderator: Thank you. Our next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Sir my question is on the pricing side. So obviously BEE ratings would have led to some impact on the overall costing, but on the other side, when we look at the RM, prices have come off. So how do you expect the pricing to play out for the industry and for you specifically?

Jasbir Singh: On the industry side, I think we had seen in last four quarters, there was an impact of almost about 15% on the finished goods side, which was resisted earlier by the retail, but then digested, once the heat-wave struck in the peak of the summer. Then came the BEE table revision, which was another impact by INR 800 to INR 1,200. So that has also been taken. I think now that this has passed, now the commodities are easing off, it has not reached to the pre-COVID levels, but certainly there has been some easing off there. So we expect that since the current pricing has been digested by the retail segment, the customers and the industry will continue at this price level.

And as far as Amber goes, our pricing strategy is very clear. We pass on any kind of commodity impacts on a quarterly lag basis, and that's what we have been doing very successfully and it's reflected in the margin profile also.

Manoj Gori: Right, sir. So sir, in this case, if you look at probably in the fourth quarter with a quarter lag, should we expect some margin improvement for us?

Jasbir Singh: Yes. I mean, on the component side, definitely we should see the margin improvement going on.

Manoj Gori: Right. Sir, so if you look at for this year, already the season has been done. So when you are interacting for the next year, because you have already started with the initial round of discussion with the brands. So what is the overall outlook, like how volume should shape up next year, probably as compared to this year, and what are the expectations, if you can share?

Jasbir Singh: Well, we are expecting as per current run rate level, my personal opinion is that, industry will cross or touch about 8.5 million units this year, and by next year we should expect at least 12% to 15% CAGR on this volume.

Manoj Gori: Right sir. Sir, one last question is just on the accounting side. So probably I'm not sure how to read that, but on a standalone basis when we look at the gross margins, there has been a significant improvement, whereas EBITDA margins have been at normalized level, led by higher OpEx and vice-versa for the subsidiaries. So whether gross margins have declined significantly but OpEx has come down, and EBITDA margins, there is some impact, yes. So anything to read over there?

Sudhir Goyal: So on the gross margin in standalone financials, those have got improved. The major reason is that, because of the product mix change in the standalone business, in which the component segment has grown much bigger, as compared to the RAC, because of the lean season. And the commodity prices have declined, which has happened in the quarter 2, which has helped us to improve our gross margin, during quarter 2, only on standalone basis.

Manoj Gori: But if you look at your other expenses, probably, if you look at on Y-o-Y basis also, so like right from 8% of sales, it has increased to 13%?

Sudhir Goyal: Yes. So there are two major reasons. One is that there is a ForEx loss of INR 7.5 crores in the current quarter, which was almost negligible in the last year same quarter, and the fixed costs, which we have incurred in the new units, or in new facilities, which we started in the current financial year, but those are not operational at a full level, because they are just starting and next year they will be going to a fully operational. So these are the two reasons because of which, other expenses are on a higher side.

Manoj Gori: Right. So it's normal business operations, right?

Sudhir Goyal: It's normal business operation, right.

Moderator: Thank you. Our next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Sir, my first question is a continuation of the last participant's question on gross margin...

Moderator: Mr. Bhartia, I'm sorry to interrupt. If you're in a speaker mode, can you switch to handset and speak. We can't hear you clearly.

Aditya Bhartia: Sir on the gross margin side, this trend of higher proportion of components is something that we were seeing in the last two quarters as well. But the expansion in margins that we have seen in this quarter is actually quite sharp. So is there something else to that as well? Is it a case that commodity costs have started falling and the benefit of that, we'll end up passing to customers with a lag, and therefore, by next quarter, by next two quarters, gross margins will again come back to the kind of territory that we have seen in the past? How should we look at that?

Jasbir Singh: Aditya, it's largely because of the product mix. You know that we have got a range of products which we offer to our clients and it's very difficult to predict which customer will buy which component, but on a larger side, the traction is towards components. And in components, we enjoyed little better margins, as compared to the finished goods. So, if this trend continues, then certainly you will see better margins moving forward.

Aditya Bhartia: Sure. And that's our expectation that the trend should be continuing. So in that context, what's the kind of sustainable gross margin kind of a level that you look at? Let's say if we remove some of the bought-out components like compressors and just look at gross margin on the products that we are supplying.

Jasbir Singh: Actually, it's a very tricky question to answer, because I'll just give you an example. Like, for example, if the gross margin is at 20% right now on one component but sometimes customers do ask us to give them sub-assemblies, by adding some bought-out items into that so that reduces our percentage margin, because it's like a pass-through kind of a thing. So in that case, the percentage will dip.

So it's very difficult to predict, Aditya, on an overall basis, how the trajectory will be. Because as a solution provider, we cannot say no to our customer, if they require such kind of a little solution from us on a basically sub-assemblies part or adding any bought-out items into the components which we are supplying,so that changes the equation on the percentages. But what we see is that, how much Amber is contributing as a value proposition on the complete manufacturing footprint. I think that is very robust and that is where the fundamentals are, and we are moving very positively on both components and finished goods side. So probably, if this continues, if there is no sub-assemblies, then yes, we can see some margin improvement.

Aditya Bhartia: Understood, sir. And sir, my second question is on your comment on market share, wherein, you said that market share should remain steady over the next couple of quarters at least. Now there was a big import substitution benefit that you are anticipating, that roughly 2 million units get imported, of which 800,000 could potentially come to Amber. We haven't, from my understanding, seen that benefit play out as yet. So shouldn't that be leading to a significant improvement in market share over the next, let's say, 3 or 4 quarters?

Jasbir Singh: Yes, I think so basically, some of the -- so what happened was, the 2 million number was pre-COVID levels and then the market fell down. So that number also came down drastically on a pro-rata basis. So industry has yet to demonstrate the pre-COVID levels, it had touched 6.4 last year. So we did convert some of the customers from -- in the phase 1 into gas charging units, and now we've already converted them into manufacturing parts. But on the other side, there is a shift happening, where some of the customers have decided to basically do the assembly on their own. So for them, it will be our component play and for the customers who have shifted to us, it will be a finished goods play.

So I think, if the industry moves to 8.5 million number, that'll be a good jump from 6.4 million to 8.5 million, and we should outnumber the number by some part. So probably we should see some improvement in our share of business also, market share on the value proposition side.

Aditya Bhartia: But you would not anticipate a very-very sharp improvement panning out over, let's say, next 1.5 years?

Jasbir Singh: See, what is happening is that some of the customers on the other side are shifting their strategies. So as we have seen in past two decades, some of the customers from outsourcing, they went in-sourcing and then from insourcing they went outsourcing. So this is a transition phase happening, because of maybe PLI or maybe because of expansion in other geographies. And what our strategy is that, we mitigated this kind of a risk, whether insource or outsource, or whether market share exchange between the brands, it should not impact us. So that we have seen these strategies and the market share exchanges in last two decades happening.

Amber's proposition is very clear. We are a very integrated, comprehensive solution provider, both in terms of finished goods and in terms of components. Today we can give you 69% to 70% of the bill of material, in case you want components. And if you want finished goods, we can deliver you that also, in any geography in India. So that's the strength which it has.

Now, if this industry grows by that number, I think what we will see is that, components are growing a little faster, because we've added couple of customers on the component side very recently due to PLI benefits and additions. So probably the structure will change and that's why, Aditya, you must have observed that, we have started observing our market share from a value point of view, which makes sense.

Aditya Bhartia: Understood, sir. And sir, a very small clarification, what's the nature of ForEx loss, and what's the kind of hedging that we do on our payables?

Sudhir Goyal: So on quarter 2 only, we have a ForEx loss at a console level of INR 6.6 crores, and we have a hedging policy and we are regularly doing our hedging largely through a forward only, and minimum like 50% to 75%, we always kept it hedged.

Aditya Bhartia: And this ForEx loss will be all M2M, or would there be normal ForEx loss involved as well?

Sudhir Goyal: So it's a mix of both, realized as well as unrealized. So I'll update you. I don't have the exact number out of this, but largely out of this INR 6.5 crores, largely it will be unrealized. INR 2 crores or INR 3 crores should be realized, but I'll give you the exact number later on.

Moderator: Thank you. Our next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Sir, my first question is, that you don't share the volume number as well as you've been saying that now, margins should not be looked at as a percentage number, but one should expect that EBITDA will grow at 25%. Now obviously, that EBITDA number has so many other things, in terms of ForEx, in terms of fixed costs not being realized, can you tell us what actual EBITDA numbers we'll grow at? Because that number seems to be pretty significantly lower than what the guidance has been? So if you could tell us, because know some of these things will always be the case, right? ForEx, I mean in this country where rupee depreciates 3%, 4% every year, if you could just tell us what should we build in, in terms of normalized EBITDA growth adjusting for some of these one-offs which seem to be repeating a lot more?

Sudhir Goyal: So Pulkit, I understand that you are saying that there are few things which are non-operating. But you want the actual EBITDA. That is also improving, but this is one year where we have seen such a big impact of the ForEx loss, and with this hedging policy and the costing which we are doing with the customers, we are expecting that this will not hit us more, and we will make it not impacting our EBITDA margins. Still, we are, like, in a phase that this -- only barring current year, where we already got this impact, we will be maintaining our EBITDA margin as well, with a CAGR of 25% to 30%, as well as PAT. So we are not guiding only at an EBITDA level, but also at a PAT level, so PAT is also growing at a CAGR of 25% to 30%.

Pulkit Patni: Sure sir, so we'll build that for the normalized growth. Sir, my second question is, we have seen what some of the brands are doing in terms of inducing competition, and that seems to be spreading across. Now, when a brand is not making as much margin as they were making maybe a couple of years back, it is natural for them to basically try to pass that on to a services provider like you. In that context, is it fair to assume that margins -- I mean compared to what you were making two years back, that margins would be structurally under pressure?

Jasbir Singh: Well, you see, brands have a very different permutation and combination due to which their margins are under pressure, because there are more than 42 brands existing in the country and the competitive intensity in the brands is very dynamic in nature. Earlier there were no online players playing a big role, but now they have also started contributing significantly. So, and there is always a pressure to maintain their share of businesses or market shares at their level.

What Amber's strategy is; that from a component build to a complete comprehensive solution provider, we generally operate at a very kind of a predetermined fixed-cost basis. And beyond certain squeezing of the margins, we have taken positions where we have neglected some kind of -- or we've given away the businesses, rather, to go on that front.

But if you see the structure of Amber today from last four years, when we got listed, the structure has changed. We are no more a RAC player. So Room Air Conditioner, of course, will go through its own dynamic, but still being a most under-penetrated product category, will remain a very focused area, because we see lot of growth opportunities in this sector, and we want to strengthen our position by giving more comprehensive and integrated solutions in different geographies in India, in the room AC space. But however, we have been adding other businesses, which is now contributing 30% to our console balance sheet, which are margin accretive and which are non-seasonal in nature.

So overall, if you see, I think probably we will maintain our guidance of demonstrating that 25% to 30% range of EBITDA in absolute basis, and similarly in the PAT levels also. It's very difficult to assume, how the brands will pass on the benefits. From our perspective, brands come under pressure due to many reasons. Some of the brands have, in past, we have seen the new brands have a -- they come with a balance sheet of buying market shares. So they start subsidizing the products. But there is no point that Amber should subsidize its products on a pro-rata basis. So we have to take a call accordingly, and we've done that in past, we'll do that in future also.

Moderator: Thank you. Our next question is from the line of Veenit Pasad from Investec. Please go ahead.

Veenit Pasad: Sir, I had just one question. I think I missed the CapEx guidance number for this year?

Jasbir Singh: So this year, it's high a CapEx year for us. We will be doing INR 600 crores CapEx this year, primarily because of our greenfield facilities and PLI commitments. But next year, it is definitely going to drastically come down.

Veenit Pasad: So is it a case that you are preponing some of the CapEx which we were planning to do, otherwise in FY '24?

Jasbir Singh: No, there is no preponement. Basically, the two greenfield facilities were very well planned earlier. And then in some of the subsidiaries are growing very fast, so there is slight CapEx there also and we continue to maintain our focus on the R&D activities. So in an overall basis, maintainable CapEx for all 23 plants, plus the R&D, plus, subsidiaries and the new greenfield facilities, leading to this kind of a CapEx.

Moderator: Thank you. Next question is from the line of Dhananjai Bagrodia from ASK Investments. Please go ahead.

Dhananjai Bagrodia: Hi, sir. Just wanted to understand now the new changes you've mentioned. So now we have 26% market share of the INR 12,160 crores of the room AC size, right?

Jasbir Singh: Yes, that's right.

Dhananjai Bagrodia: And this INR 12,160 crores includes all components; CBU, everything is inclusive, all of it AC as a whole category, is that correct?

Jasbir Singh: This is room AC and room AC components put together.

Dhananjai Bagrodia: Okay. So then the earlier volume market share. And sir, just to understand now, right now we would have good clarity in terms of how the remaining year would be, what would be our growth, for example, for the remaining, for the next six months for room AC and room AC components?

Jasbir Singh: So, that's why we've guided that we will maintain the share of 26% plus moving forward, as the markets are moving from 6.4 Mn to almost close to 8.5Mn, we are moving in tandem to that and components are growing a little faster.

Dhananjai Bagrodia: So would it be fair to assume that the components will be like 1.08, like around 1.10 times the room AC growth?

Jasbir Singh: If you see in quarter 2 results also, the components have clocked a growth of 136% kind of a thing. So, right now, very difficult to predict, because customers have still to come up and tell us whether they want sub-assemblies or finished goods or only the components. We don't know as yet. But I think from our perspective, what we are seeing clearly, is that our market share will be very much intact, or perhaps we may grow a little in the market share.

Dhananjai Bagrodia: Sure. And sir, you mentioned Sricity, you are opening, the operations in Q3 FY '24?

Jasbir Singh: Please pardon. Can you repeat the question?

Dhananjai Bagrodia: Sir, you mentioned SriCity will be operational by Q3 FY '24?

Jasbir Singh: Yes. It will be operational in end of Q3.

Dhananjai Bagrodia: Okay. FY '24?

Jasbir Singh: No, FY '23. So, basically, right now the factory is ready, lines have been put up and trials are going on. I think once we receive the customer approvals, the production will start, mass production will start.

Dhananjai Bagrodia: And sir, just to understand, what could be the asset turns on this segment?

Jasbir Singh: So asset turns, generally, in these segments are about four, and we'll begin with about three, then we'll go to four and maximum, on the assembly side, we can go as long as seven to eight also. So it will depend on what kind of businesses we are getting moving forward. But overall on the asset side, we should expect somewhere about four to five.

Dhananjai Bagrodia: And sir, what would be the capacity volume for this? We are targeting for, let's say, the year-end?

Jasbir Singh: So Sricity, we have installed heat exchangers, sheet metal, injection molding facilities, tubing, components and assembly lines for 1 million air conditioners.

Moderator: Thank you. Our next question is from the line of Dhruv Jain from Ambit Capital. Please go ahead.

Dhruv Jain: Sir, I had a question with respect to your CapEx. So last call you had mentioned that you will add INR 200 crores of CapEx if you get those customer approvals. So now that you increased the CapEx guidance. One, is that we will see some extended period of subdued EBITDA in the standalone business, like we saw in this quarter as capacities get absorbed, so that carries through FY '24?

Jasbir Singh: Sorry, your question is pertaining to what? I mean, you are asking about the CapEx guidance. Yes. We've revised our CapEx guidance after our confirmations from the customer. What's your question?

Dhruv Jain: So, one is that, we saw some unabsorbed losses of unutilized capacities in the standalone businesses this quarter. So now that incremental CapEx of about INR 300 crores that you're doing in FY '23, does that mean that your margins will remain subdued till the first quarter of FY '24 in the standalone piece, because you will take some time to ramp up capacities?

Jasbir Singh: No, that's not the case. In fact, the capacities which have been built up and which are getting added on the confirmations of our customers, that will be reflective from quarter 4 onwards. And the last one where we will be putting up CapEx in this year, will be reflectable in quarter 1 of next financial year. And these are all good businesses for a long-term contracts to the customers.

Dhruv Jain: And sir, for the INR 600 crores, can you just broadly give the split in terms of how much you're spending in ACs and the other components, motors, electronics?

Jasbir Singh: So almost the Sricity CapEx is close to about INR 350 crores, which is primarily ACs, and remaining are all put together in subsidiaries, as well as subsidiaries plus the maintenance CapEx and R&D CapEx.

Dhruv Jain: Okay. And sir, on the electronics piece, we've seen a decent growth in this quarter on a Y-o-Y basis, so but the margins have declined a little bit. So if you can just give us a sense on, in the electronics piece what is the AC part and what is the non-AC part and just your general broad outlook on that, please?

Jasbir Singh: It varies from quarter-to-quarter. Actually, in quarter 2, air conditioner contribution is very less, because the complete industry went through a sluggish phase because of BEE table and some rains. So largely, in quarter 2, the revenue is, I would say, maybe just 20% of ACs rather than and 80% will be non-RACs.

Dhruv Jain: Okay. And sir, over the last three years or four years, we've seen that you have undertaken significant CapEx along with some acquisitions, right? And, in some of the earlier participant questions you said that your market share, you are likely to maintain your market share and increase by a little bit. But considering the CapEx that you've done over the last three years or four years, shouldn't we expect like a very strong FY '24 or FY '25? Just your broad thoughts on that.

Jasbir Singh: Yes. So we are also expecting. This is in anticipation of industry growing around 15% CAGR, and also our endeavor to get into non-RAC components also, which are more margin accretive. So both the strategies are working on, and we should see that number panning out in the reflective of margins, as well as the balance sheet on the bottom line side.

Moderator: Thank you. Our next question is from the line Paras Nagda from Enam Holdings. Please go ahead.

Paras Nagda: Sir, I had two questions. One was on the gross debt, if I see your balance sheet, your gross debt has crossed close to INR 1,300 crores. I actually fail to understand how the net debt is at INR 665 crores. What is the cash and cash equivalent, plus the bank balance? So if you could, if someone could reconcile that for me, please?

Sudhir Goyal: Yes. So we have a cash balance in the current account or the cash credit account, which we received on the last days, and plus investment in the FDs and investment in the perpetual bonds of the bank, HDFC and SBI only, the total of these investments, including the cash balance is INR 645 crores. So net debt is coming to INR 662 crores. And this is happening, why the gross debt is higher? Reason is that as per the RBI guidelines, we need to draw first 60% in the WCDL, which is a Working Capital Demand Loan, for a fixed tenure. It ranges from like 15 days to 3 months period and we can't prepay it. So that is the reason that if we draw some WCDL, which is a low-cost than the cash credit account, then whatever balance left with us or received during that period, where we can't prepay the loan, we have to kept largely in the FDs for a shorter tenure.

Paras Nagda: And is it fair to assume that this is going to be the peak debt envisaged, or will the debt increase going ahead, net debt?

Sudhir Goyal: See, by year-end, we are expecting that it will come down to a great extent, because this is a cycle of the business, wherein in the off season, we have a larger net debt, and by the year-end we get a lower debt. And one of the main reason of the September quarter's larger debt is the CapEx which we have done in the H1. And by year-end, we are expecting that this debt should come down by minimum INR 200 crores.

Paras Nagda: Got it, okay. And my second question is, Jasbir, could you update us on the export potential and what is happening on the export side of the business, please?

Jasbir Singh: I already did, Paras, but I don't mind repeating it. So on motor front, doing positive. Last year we did INR 28 crores, INR 29 crores worth of exports. This year we have a confirmed order of about INR 50 crores. And next year, we are expecting very large orders. So I think we'll see somewhere about a 70% to 80% jump from current year, next year in the motor business.

As far as finished goods are concerned, as stated earlier, our strategy and our guidance have been mid-term to long-term strategy, because there are four milestones to achieve in finished goods. One is the product readiness for the geographies, like in US, they don't use high-wall mounted splits. Then in European markets, they have complete heating and cooling solutions and have structurally different products. So first milestone is to create those products.

Second is to get the approval of BEE of each country. Every country has different BEE norms and different BEE tables. There is no standardization across the world, which everybody follows. So if you go to Middle East, all the MENA region countries have a different kind of a BEE norm. Somebody follow different norms and somebody has a vary, no one follows a standard one. So that's the second milestone.

Third milestone is to have foot in the door. We as a company, and we as a nation have yet to prove on the deliverability, on the cost competitiveness to our customer, and on the quality side.

Then fourth will be to increase the share of business. So in some geographies, like US, we are at milestone number two. The products have been ready, they are under testing, the samples have been submitted to some, prototyping is happening and we expect that by 2024 financial year, next financial year, we should be over by the BEE table norms. So FY '25 is when we are expecting some good, decent orders as a foot-in-the-door kind of a thing to come in, and FY '26 should be where we should see some share of business increasing in the finished goods category.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Jasbir Singh for closing comments.

Jasbir Singh: Thank you, everyone, for joining the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with Strategic Growth Advisors, our IR advisors. And once again, wish you all a very-very Happy Diwali and a prosperous New Year. Thank you very much. Have a good day ahead.

Moderator: Thank you, members of the management. On behalf of Amber Enterprises India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.