



Date: 17.08.2022

To
Secretary
Listing Department

To
Secretary
Listing Department

BSE Limited

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

National Stock Exchange of India Limited

Exchange Plaza, Bandra Kurla Complex,
Mumbai – 400 050
Scrip Code: AMBER
ISIN : INE371P01015

Dear Sir/Ma'am,

Subject: Q1 - FY 2022 - 23 Earnings Conference call transcript

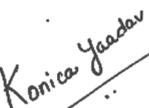
This is further to our letter intimating the details of Investor/Analyst call on the unaudited financial results of the Company for the Q1 i.e. first quarter of the FY 2022-23.

In this regard, we are enclosing herewith the transcript of Conference Call hosted on August 10, 2022. The same is also available on the Company's website.

Kindly take the same into your records and oblige.

Thanking You,
Yours faithfully

For **Amber Enterprises India Limited**




(Konica Yadav)
Company Secretary and Compliance officer
Membership No. : A30322

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“Amber Enterprises India Limited Q1 FY23 Earnings Conference Call”

August 10, 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**



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August 10, 2022*

Moderator: Ladies and gentlemen good day and welcome to Amber Enterprises India Limited Q1 FY23 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 date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Jasbir Singh: Hello and good morning, everyone. First and foremost, I hope you all are keeping safe and healthy. On the call I'm joined by Mr. Daljit Singh – Managing Director, Mr. Sudhir Goyal – CFO, Mr. Sanjay Arora – CEO, Electronics Division and Mr. Sachin Gupta – CEO, RAC & CAC Division and SGA, our Investor Relations Advisors.

We have uploaded our Results Presentation on the exchanges, and I hope everybody had an opportunity to go through the same.

The first half of the year was very good for the air conditioner industry. Amid scorching heat this season without any lockdown restrictions as per the industry reports, the January to June, AC market domestic is close to about 6 million units as against pre-pandemic levels of 4.25 to 4.5 million units in H1 CY19. The industry is expected to cross 8 million in this calendar year versus 6.4 million units in FY22 and 7.2 million units in FY20. This signifies that the pent-up demand is coming back into the system despite the inflationary pressures. From 1st July, 2022 new energy rating rules for air conditioners have been implemented. We expect smooth transition to new table, providing more energy efficient products to the industry.

I am pleased to share that our performance stands out even when compared to Q1 FY19 and Q1 FY20 which was the last comparable first quarter when business and economic activity were at normal levels. Even when we compare the full fiscal year 2020 with trailing 12 months ended on 30th June, 2022 our revenue has increased from 3,963 crores in FY20 to Rs. 5,324 crores in trailing 12 months ended on 30th June, 2022. On the operating profitability we have clocked 377 crores in operating EBTDA in trailing 12 months ended on 30th June 2022 versus 326 in FY20.

The quarter however continued to bring challenges related to inflation, rising interest rates and foreign exchange fluctuations. The industry however witnessed some softening of raw material prices but it still continues to be higher than the pre-pandemic levels.



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During the quarter we were able to pass on the commodity price increase to our customers that happens with the quarterly lag as a standard industry phenomenon.

Despite challenges, we are enthusiastic about the prospects for FY23 due to strong order book and things have become normal post pandemic and softening of commodity prices.

On the new greenfield facility, Sricity facility will be operational in the second half of this fiscal year 2023. We expect to start our trial runs in mid of September this year and commercial production start by mid of December, 2022. We have been able to improve our market share and client wallet share because of our commitment to being a one stop solution provider, a comprehensive and integrated solution provider for our customers. Our market share in value terms at OEM manufacturing level has increased from 21.2% in FY18, the year when we got listed, to 26.6% in FY22.

Now moving on to the divisional performance:

In room AC division, RAC division has grown by 138% in Q1 FY23 over Q1 FY22. Our volumes and revenues grew in tandem with the industry during the quarter. In the fiscal year 2022-23, the industry is anticipated to surpass 8 million units indicating a robust demand from consumers. On the commercial side, we have added new products for commercial ductable ACs as well as Cassette ACs which we have started to offer to our existing customers now.

In the motors division, motor division has grown by 131% in Q1 FY23 over Q1 FY22. We have increased our product offering to our customers by adding new models for both the domestic and international markets. BLDC is currently a very small part of portfolio; we have recently started. Reliability cycle is going on and we are about to start the mass production. We see that this BLDC would be adding as revenue from both side in captive as well as also on the component solution to our customers. Having strong order book due to addition in new products, new customers and new geographies and expected to grow by more than about 30% in FY23.

About the electronics division which includes ILJIN and EVER; this division grew by 254% in Q1 FY23 over Q1 FY22. We've added new big customers through brownfield expansion in south India. As informed earlier we have added Boat as our customer and have started supplies for new age applications like smart variables and hearables. This is a large business segment which is growing at a fast pace. Our supply to Boat opens up a large sectoral opportunity for Amber. We expect to see this segment grow at a faster pace in coming years. We are also expanding this division into a new vertical, new applications moving forward.

On the components division which includes AC and non-AC components. Our components division grew by 218% in Q1 FY23 over Q1 FY22. Our components division has played a very positive role in our growth. We are adding new products, new customers and new geographies in this segment. Amber PR and Pravartaka which are the two new acquired entities are



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witnessing increased traction on both cross selling to existing customers and it is expanding its manufacturing footprint now in the western region and southern region respectively.

The mobility application division grew by 91% in Q1 FY23. We have onboarded new customers who are global leaders. We are now developing new products for multiple business categories. We've added products to cater to steel plants. To further serve our existing customers we are developing new products to increase our wallet share in the railways and metros and our order books today stand healthy at more than 625 crores.

To sum up; we believe that all our business engines are at sweet spot to grow multifold from here. RAC and components division is expected to grow faster than the industry growth rate in this financial year '23. Motors division is expected to grow more than 30% in current financial year '23, electronics division is expected to grow more than 35% in FY23, mobility application division is expected to grow more than 15% in FY23 and our new acquisitions Amber PR and Pravartaka are on a growth path to deliver more than 25% in this fiscal FY23. We also expect that our ROCE to improve significantly from current levels and is expected to be in the range of 17% to 20% in the next 2 to 3 years' time. The expected improvement in ROCE is despite investments in the growth CAPEX.

I will now take you through the consolidated financial highlights;

On the revenue Q1 FY23 revenues stood at Rs. 1,826 crores versus 708 crores in Q1 FY22.

On the operating EBITDA side Q1 FY23 operating EBITDA stood at Rs. 131 crores versus Rs. 50 crores in Q1, FY22. Operating EBITDA margins for Q1 FY23 and Q1, FY22 stood at 7.2% and 7.0% respectively. Q1 FY23 and Q1 FY22 operating EBITDA does not include ESOP expense of Rs. 5.29 crores and Rs. 3.26 crores respectively.

On the PAT Q1 FY23 PAT stood at Rs. 43 crores versus Rs. 11 crores in Q1 FY22.

All divisions are ready to take advantage of multiple opportunities. Our goal is to capture the bulk of the RAC and the component market share. We feel that this opportunity will boost our position in the domestic market while also providing solid foundations for exports moving forward.

On the net working capital days, we have been able to reduce it on a consol level from 76 to 37 days in the comparative quarters. Thank you very much. Now I open the desk for the Q&A session.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aditya from Investec.



Aditya Bhartia: My first question is on some of the one-off costs that we had in this quarter. Could you provide the split between FOREX loss, loss on sale of fixed assets and the write-off on the fixed assets side that we are having and simultaneously if you could also explain the nature of FOREX MTM loss?

Jasbir Singh: I think I'll ask Sudhir to answer this question.

Sudhir Goyal: Hi Aditya, good morning. On the FOREX loss we have our MTM loss of around 23 Cr in the Quarter 1 and on the ESOP impact what we have spoken is 5.29 Crs and on loss on sale of fixed assets is around 52 lakhs, sorry, it is total is around 79 lakhs. Also, there is a MTM on the bonds that got adjusted in the interest income that is around 1.95 crores.

Aditya Bhartia: And this M2M loss on FOREX that we are having is mainly on payables?

Sudhir Goyal: On payables and a buyers credit as well. This will get adjusted in the future quarter in the form of a price increase which will take on the quarterly lag basis on the customers.

Aditya Bhartia: Understood. My second question is on Sidwal wherein we have seen a very strong growth in revenues in Quarter 1. What has that really been on account of, in terms of new customer additions, product addition, so if you could just spell out in a bit more detail on that front?

Jasbir Singh: So, Aditya as we explained in the last few quarters that we had added some marquee customers there, global players who won a new tender from Indian government from ministry of urban development. Those trains now are almost ready to be dispatched. In fact, the first train which has come out a day before yesterday for trial run on the Delhi-Meerut, new category of rapid rail transport system which has been supplied by Bombardier that has got Sidwal's air conditioners in it. We've also won some recycling of air conditioners businesses from Delhi Metro which we have accomplished this quarter. Our AMC business has also grown significantly in this quarter. All this is adding up to a robust growth in that division.

Aditya Bhartia: Can you also share the volume numbers for this quarter?

Jasbir Singh: This quarter we have a clocked volume of 1.28 million from April to June.

Aditya Bhartia: Would it be possible to just provide the proportion of window ACs within that?

Jasbir Singh: I would restrict that because that has become a very sensitive data. We have seen in past, few of our customers taking that data and they attempted a negotiation bid. So, we've started that, we are not sharing that data. But yes, we have grown in tandem. I think we are expected. I am expecting that industry will do a number of somewhere between 28% to 30% this year on the growth perspective. Number this financial year is expected to outnumber the industry by at least 2% to 3% or maybe 4% depending on how the last quarter goes. Primarily this outnumbering will happen because our gas charging customers are now at last leg of starting manufacturing



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with us. Sricity is also opening where we are starting our manufacturing footprint which will contribute very-very little this fiscal year because it will be starting in mid of December. But because of the new customer addition we will be able to outnumber the industry in terms of volumes.

Moderator: The next question is from land of the Dhananjay from ASK Investment Managers.

Dhananjai Bagrodia: Would it be fair to assume after taking out the exceptions that your Q-on-Q would be a positive vis-à-vis what you have reported, Q-on-Q would be growth your OPM versus what was reported as a negative?

Jasbir Singh: You are talking about the operating margins?

Dhananjai Bagrodia: Yes.

Jasbir Singh: Yes. It has been a positive as compared to Q-on-Q basis.

Dhananjai Bagrodia: Few of the listed peers have also mentioned that they're now setting up actually for ODM solution, so other players going ahead and they themselves initially consumers of other people. Now do you see that having impact on us also?

Jasbir Singh: We don't see any competitive landscape getting changed because of these initiatives by other companies. I believe that AC industry is heading towards robust growth for coming decade. There is certainly room for one or two more new players. But will they be able to offer the solutions in all the 23 geographies like Amber does. Will they be able to offer the solutions in the component space also and that too also in seven verticals in which Amber operates, that is yet to seen. But as far as the stickiness with the clients is concerned, I think Amber is offering a very comprehensive and integrated solutions in different geographies of India. So, but yes, we welcome worthy rivals. So, it's always good to have a competitiveness in the market which keeps you on toes.

Dhananjai Bagrodia: Lastly in terms of the PLI, you mentioned that Q1 is I believe first quarter where we have started seeing some PLI benefits and now we will see that rest of the year? Would you be able to quantify that?

Jasbir Singh: We will not be able to quantify until the PMA agency certifies the PLI benefit. So, that will happen on the yearly sales. We have already crossed our threshold of investment last year. We are eligible for the incremental sale benefit this financial year but we will apply for the benefit after closing of the financial year. I expect that they will take another quarter or so to give us the certificate or to stamp whatever the incentive becomes. Right now, it's very difficult to assess that kind of a situation.

Moderator: The next question is from Renu Baid from IIFL Securities.



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Renu Baid: My first question was if you can help us provide some insights into the operating performance of the various subsidiaries that we have and how have they moved in terms of a targeted margins offered double digit levels?

Jasbir Singh: Starting with the motors division; we have done 83.44 crores revenue as compared to 35.89 on Q-on-Q and this 83.44 revenue brings operating EBITDA of 10.24 and then when we go to mobility applications, that has jumped from 49 crores to 94 crores and at 94 the EBITDA stands at 25.77 crores. In the electronics division we have jumped from 58 crores to 208 crores, this combines ILJIN and EVER together. The operating EBITDA from (-160) has come to 8.85 crores and Amber PR and Amber Pravartaka, so Amber PR we are moving, we have done 33 crores because there is no comparison with the last year quarter. We just acquired these entities. At 33 they have done 3.88 crores which is about 12% EBITDA and Pravartaka has done 41 crores at a 4.22 crores EBITDA. So, all of the subsidiaries if you see have now almost touching or touched and crossed the double-digit EBITDA numbers and except the electronic division which actually by nature of the business is such. We are on a growth path in all the six subsidiaries of Amber. I expect that they continue to grow like that in coming quarters.

Renu Baid: My second question was actually related to the electronic subsidiaries EVER and ILJIN. If you see there are lot of activities happening in the space on the PCBA segment across various application not just for consumer products. If we see some of the other unlisted peers that you have including the ones which are looking to come into the market for IPO, their EBITDA margin seem to be in double digit levels for PCBAs. How should we compare or how should we benchmark our operating performance or margins as EVER-ILJIN with some of the other peers which will get listed in the coming months and where do you see the gap in terms of margin improvement.

Jasbir Singh: You see, on one side we have companies like Dixon to benchmark. On the other side we have Syrma which you are talking about right now which is just about to launch. So, both the applications are very different. We are catering to applications of consumer durables and variable and hearables which are generally low EBITDA margin businesses. So, Dixon and ILJIN and EVER will be almost in the same range.

Renu Baid: Dixon has a different business model in terms of assembly.

Jasbir Singh: If you go for automobile sector or you go for Defence or other sectors, then their EBITDA margins are certainly very different, not even Syrma, I would talk about other companies which we know about which are unlisted right now which are aspiring to be listed very soon. Those operate in range of 12% to 14%. What we are doing at ILJIN and EVER is that first of all when we took over these companies, it was primarily a refrigerator and air conditioning solution provider and only pure assembly.

Renu Baid: Primary to LG.



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Jasbir Singh: Primarily to LG and IFB, there were only two customers. Now we have 18 customers in that division and we are also coming up with a third factory in south India which will be operational in next 2 to 3 months. That is on the rented premises, that is under installation right now. What we are doing is apart from expanding our customers in the consumer durable business, we have started giving solutions from not only refrigerator and air conditioners but we have gone to washing machines, microwave ovens, fans, water purifiers and TVs. Now we have added another application which is hearable and wearable and now we're adding telecommunication equipment also which right now we have just onboarded a customer. We cannot name them. We will be able to let you know once the commercial production start with them but that is again going to become a big business and also better margins from what we are today. It is a mix and match off various applications which will increase the margins going forward in these subsidiaries.

Renu Baid: Probably from a 2 to 3 years perspective you think the electronics business can target a near double digit margin for us given the mix that we have, 9%-10% or probably that looks elevated.

Jasbir Singh: You see if we are successful in getting the applications where EBITDA margins are generally higher, of course it can hit that numbers. But if you want me to guide the numbers, I will not be able to guide it.

Renu Baid: I am not looking for specific guidance. Second, if we look at the core RAC market as in the offtake seems to be reasonable fine but pricing pressures in the industry continue. So, what would be your outlook in terms of the pass through of the cost escalations that we are seeing, is that transmission happening as expected and resulting, should we expect the margin for the core RAC portfolio to improve given that this cost pass throughs will be there? And simultaneously any comments on channel inventory would be an add-on?

Jasbir Singh: Now our room AC sector has entered into off-season quarters. This Q2 and Q3 are off-season for the quarters. And in second headwind apart from the inflationary pressures, the second headwind was BEE table change in the middle of the year which is 1st of July. Normally it used to happen in 1st of January. Now what used to happen was that dealers used to pick up inventories in anticipation of forthcoming season where they can sell it in a month or two but now since the cycle has reversed this time. There's a bit of lag in the industry right now as far as the July month is concerned but August seems to be quite normal. I don't think so anybody's carrying a lot of inventory now. It is a completely at a normal level right now. Industry was very conservative while planning and industry was surprised by the pent-up demand which came up. I think the CAGR of double-digit growth will be continued from this year onwards. On the price pressures, yes some of the brands are still facing up price pressures. Some of the brands have been able to pass on. It's a mix and match from thereon. As far as our contracts goes, it is basically supported by the price variation clause applicability which we go. Now what happened last quarter was, last to last quarter there was a price increase. Last year last quarter also again there was an increase but then in June end, by middle of June we all saw that commodities started easing off but it did not ease off to the pre-COVID levels. So, probably if the commodities continue to be



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where it is today, I think there should be slight margin improvement going forward in Quarter 3, Quarter 4 onwards.

Renu Baid: But no pressures on you to reduce the prices and pass it on to brands at this point in time?

Jasbir Singh: I think it's a right of every purchaser to ask for price reductions from us. It depends totally on whether we are in a position to do it or not. But we as a company there's very fundamental policies laid down on that front and we don't want to bring the growth based on the margin depletion kind of a thing. So, we are wary of that and in some of the companies, some of the customers there is zero follow-up also. It is automatically understood phenomena and they are all more than 70-year-old companies. They've seen so many cycles of inflationary pressures in past also. It's a complete, I would say the commodities or currency exchanges are passed on without any follow-up with them. So, that's how the industry works. I think that as far as we are concerned, we are not facing any pressures right now from the industry.

Moderator: Next question is from the line of Sonali from Jefferies India.

Sonali Saljoljar: My first question is again an extension of the question on the demand. Now I think the industry has taken cumulatively about 10% to 15% price hikes in the past 12 months. So, is it fair to assume that there is some deceleration in the demand especially for higher price point items such as the air conditioners and also with the new BEE norm being effective from 1st of July, what is the quantum of price hikes that you think that the industry will take going forward?

Jasbir Singh: Sonali if you see industry has already demonstrated or I would say witnessed more than 20% growth despite of all the price increases which has taken place. That means that this product is actually linked with the lifestyle product rather than somewhere it is a price points. You will be surprised to know that there are shortages right now for some of the premium products in the market. If you want a 5-star inverter today of some of the brands it is available at 10 days kind of a notice, not off the shelf. Some of the VRV units are available at more than a month basis right now. But having said that some of the brands are still keeping inventories, from my opinion is that industry is operating at a very normal inventory level. There is no point to worry about that. And markets and retail has already digested the price increase which has come. We have seen impacts on the price increase in earlier quarters when there was lot of resistance from retail side to accept that and that's a natural phenomenon whenever such kind of a price increase happens which is unprecedented, retail definitely gives a back pressure. But that got over after the summers and during the summers everything passed out and brands were able to liquidate their inventories.

On the BEE table, July month was of lag month because there was a slowdown, some of the brands they are already shifted to new BE table from 1st of January, some of the brand shifted right now. So, they saw little bit lag but I think from mid of August onwards we are seeing the order book again coming back to normal. My rough estimate is that industry should cross 8+ million and somewhere we should be landing in the range of 8.2 to 8.4 million this financial



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year. Of course, lot depends on the Quarter 4, if the winters get extended this number may change, But as of now the run rate, I think that this number is achievable.

Sonali Saljoljar: So, what is the incremental quantum of price hikes that you foresee the industry to take post the new implementation of BE?

Jasbir Singh: In BEE, there is an impact from somewhere about Rs. 800 to 1200 in the range of that per model. So, 1 ton model will attract about 750 to 800 and 5-star, 2 ton will be having about Rs.1250 odd range. That is the range of the increment rates. It's not a very big number on a 35,000 or 40,000 product category.

Sonali Saljoljar: My second question is regarding your mix. Now components have been fast growing segment for you all. Say about 3 to 5 years from now on what is the perceived mix between RACs and components in your overall sales?

Jasbir Singh: We are endeavoring that this split should come to 50-50 level. I think we are touching those numbers in some of the quarters, that is our endeavor to bring components and other businesses to a complete 50% level and RAC at a 50% level. Now what further we are attempting is that RAC and RAC business, I mean RAC as a finished good plus RAC components, to bring that vertical at a 50% level. So, which is right now at about 72%. So, that is our endeavor moving forward for next 4 years' time. So, other businesses are catching up. You will see lot of momentum in those businesses and we are gearing up accordingly.

Sonali Saljoljar: Last question from my side, the CAPEX guidance?

Jasbir Singh: On the CAPEX, we still would be maintaining the same guidance what we gave last time. So, 400 crores is what we are investing this financial year, out of which some part is going into greenfield facility at Sricity which will be getting over right now. We are under discussion right now for two major expansions with customers. If that goes through then we will be investing somewhere about 150 crores more in this quarter. But that is subject to the approvals which we will come to know by end of August or maybe mid of September. That's it on the CAPEX side. Next year there is no requirement on the new greenfield facilities. It will be just a normally R&D CAPEX and maintenance CAPEX and few subsidiaries are expanding next year. Next year we expect it to be in the range of 150 to 175 crores.

Moderator: The next question is from the line of Bhoomika Nair from DAM Capital Advisors.

Bhoomika Nair: Just wanted to touch upon the margin aspect. If you see a lot of the brands are actually putting up their own facilities in the south, from that perspective and given our own plant will come in, do you think there will be a margin pressure as we move ahead given that fixed costs for the industry will actually increase? To that extent what kind of an impact it can have on our ability to take price hikes?



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Jasbir Singh:

In fact, if you see the manufacturing footprint right now in our sector, there are about 16 manufacturing companies, out of which 11 are brands. Those brands are having factories not from now on but they are having factories since last couple of decades and we are supplying components to them. Nothing on the competitive landscape is changing for us when the brands are investing in their expansion in the factories in the south India. In fact, that becomes an opportunity for us to supply them the components which they are not putting up. Just to give an example, like when whenever brands put up a factory, they generally put-up assembly lines and labs plus heat exchanger lines. Some of them, they add injection molding and sheet metal. None of them is putting up motor plants. None of them are coming up with the inverter PCB boards. Some of them are not putting up sheet metal facilities. Some are not putting up cross flow fans. There is a lot of opportunity for companies like us to give them. In fact, they are very supportive right now. They are very happy that we are starting our Sricity plant ahead of them. So, we will be able to give some components to them as we are giving right now.

Coming on the margin side of it. You see we are a B2B company and B2B company is an extension of manufacturing arm of our customers. Now whenever that happens, it is actually run by a guided principle. In case a brand is manufacturing on their own any kind of commodity increase or currency impact comes on them also. In fact, with these kinds of customers who have manufacturing plants on their own, they are very practical in approach. They also know that this is a standard part. We cannot reduce or give the commodity increase portion to them in case it comes to us, it has to be passed on and they have further to pass on to clients in the markets. In a B2B organization it's a standard part that you have to continue touching base with the customer in case the commodities prices are going in the north direction. In case it is going to the south direction they have to continue to talk to us. So, that is a cycle that goes on. I think we have seen a two-decade journey till now, a lot of competitive landscape has changed and we have been able to pass on commodity increases on a quarterly lag basis every time. I don't think so that fundamentally there's going to be a change there.

Bhoomika Nair:

The other thing, the second question is on export. We were looking at exports and we have started seeing some traction in the middle east. If you can just talk a little more on what is the status of the same? Where are we, have we started getting orders and how do we see that scale up over the next few years?

Jasbir Singh:

In middle east, we are actually started penetrating in small numbers. We had already supplied some units last year. This year also we expect to do about 3 lakh units this year, coming quarter and so. We are also attempting to penetrate now in the US market, our products are ready. We expect that our energy labeling part will get over in FY23. By maybe FY24 we should be able to clock some small revenues from finished goods side. As far as motors is concerned that is going very well. We have already started getting repeat orders from US markets and middle eastern market. Now we have added BLDC product which was not available with us. So, that will also go, in fact we are also attempting to export cross flow fans from here through our new acquired entity, as a solution provider in the motor and the fans side. Again, I would like to



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reiterate, that exports is a long-term strategy. It's not a short-term strategy. The significant impact of exports should be visible in the balance sheet maybe 3 to 4 years from now.

- Bhoomika Nair:** The gross debt and the net debt numbers as at quarter end.
- Sudhir Goyal:** On a net debt position, at a consol basis we have around 625 crores of our net debt and gross debt is around 1,300 crores.
- Moderator:** Next question is from the line of Nikunj Gala from Sundaram Asset Management.
- Nikunj Gala:** I need understanding on the FOREX loss which you mentioned this quarter. So, here just want to understand as a business policy we don't hedge our FOREX exposure.
- Sudhir Goyal:** No, we hedge the position at around 25% to 30% on a short-term basis. Whenever there is a large impact, we see and we discuss with the various people and we increase it to 50% level as well depending upon the scenario.
- Nikunj Gala:** Whatever unhedged position we have taken the loss of 23 crores, right?
- Sudhir Goyal:** No, it's MTM. It is not a realized number. It is MTM because we need to reinstate all the liabilities at a closing rate.
- Nikunj Gala:** I think in one of the comments you mentioned, you will recover this from the client. Is that understanding correct, like in the coming quarters if that fructifies then?
- Sudhir Goyal:** It happens that in the next quarter costing since we have inventory lying up with us and that gets valued at a last quarter's average commodity prices as well as the foreign currency rate. That gets adjusted in the coming quarter selling price.
- Nikunj Gala:** One point on this, if I look at the FY19 numbers, so in FY19 was the year where the currency depreciation was also sharp, for the year it was 8% and in-between in one of the quarters it was 9%. How was that accounted during that time?
- Sudhir Goyal:** During that time also, we were able to recover that depreciation in the future quarter sales and MTM loss is also always covered under the foreign currency fluctuation in the other expenses.
- Nikunj Gala:** So, similar kind of accounting was done in other expense during that time also?
- Sudhir Goyal:** Yes. There's no change in the any accounting policy since so many years.
- Moderator:** The next question is on Pulkit Patni from Goldman Sachs.
- Pulkit Patni:** Just one suggestion, what previous the participant asked. I think it's from a disclosure perspective if you can just split out the FOREX every quarter, it helps us look at margins more objectively.



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My question is firstly, in the previous quarter you mentioned there were certain fixed costs under recovery because of certain new facilities started which were not contributing, given that we still have the Sricity facility coming in the second half of this year. In the current quarter also do we have some fixed costs which have not been fully recovered? I'm just trying to understand the sustainable margin for the business.

Sudhir Goyal:

Yes. Those are still those newly started entities are not at full capacity level. They did the business in Quarter 1. So, we need to wait for those plants which have started in the last year last quarter. They will be operational in a full capacity in the current year. But yes, there will be again new entity which is coming up in the H2 which is Sricity. There will be a small impact on the fixed cost in the first year, but from '23-24 you will see that full year business and no lag of the fixed costs will be there going forward. You will see some of the fixed costs are more because of the new plants we have started in.

Pulkit Patni:

Also, in Sidwal our order book is one of the highest if not the highest in my recent memory. Can you just for modeling purpose help us understand what will be the time period in which we can exhaust this 625 crores kind of an order book? Is it four quarters, five quarters?

Jasbir Singh:

Generally Metro and train orders are extended towards close to about 18 to 20 months period and we expect Sidwal to deliver 15% to 20% range growth this year looking at the current run rate what's there. But the order book is strengthening. I think the portfolio is getting extended because we are not only adding air conditioners but we have started delivering more products. We have increased our wallet share also within the same customers, be it railway or Metro or other applications which we are delivering, some Defence orders have also come in. It's moving very positive from that perspective.

Moderator:

The next question is from the line of Madhav from Fidelity International.

Madhav:

I just wanted a couple of questions, first one was basically, we mentioned about having this 150 crores CAPEX for two customers in terms of just like an expansion. As far as I understand the nature of these expansions like are we putting up a capacity near their facility or what's happening there? Just wanted to understand that.

Jasbir Singh:

So, we are right now under discussion for a brownfield expansion near to the customers and these are going to be customers of component sector. That is what is under discussion. I think by next quarter or so we'll be able to freeze. Right now, it is moving positive with them in case it happens. It will help us in good sales in next financial year.

Madhav:

These are RAC customers?

Jasbir Singh:

These are consumer durable customers, both RAC and other consumer durables.



Madhav: My second question was that you mentioned about 3 lakh units of exports that can happen, was it our finished goods RAC or was it from some motor or other components?

Jasbir Singh: No, so motors we are doing slightly more. Motors I think the number is moving positive. 3 lakh is something which we did last year in motors. This year we are expected to do half a million or more motors. In case of RAC 3 lakhs are not sets I've spoken, I've spoken about units. We are attempting to do that number. Let's see how it goes.

Madhav: But even 3 lakh units on a RAC side it's a good number, like on our base of 2.6 million units which we did in FY22, if we can do 0.3 million extra just from export that's a good bump up for us, isn't it or am I missing something?

Jasbir Singh: Yes, we're attempting it. Right now, we are talking with the customer. There are positive notes going on but this can spill over to next financial year also, depending on the energy rating process because that's a quite a long process but that order book is getting frozen, maybe very soon we'll be able to freeze that order book. There are certain milestones when a customer freezes the order book. First of all, the prototyping has to happen in the BEE norm has to apply. Now if that goes fine then that supplies will happen. Now will that 3-lakh number come this year, that's very difficult to state.

Madhav: Which is completely okay as long as the business is trending in that direction that you can get that order, but this is for middle east, the 0.3 lakh units that we are talking about, this fiscal or next fiscal?

Jasbir Singh: No. Its middle east and South Africa region and US, all put together.

Moderator: The next question is from the line of Nitin from Ambit Capital.

Nitin: One question that you've said that this year most likely to do closer to do what the industry will do about 8.2 million pieces. Let's say in FY23 to '25 India gets closer to something like 10 million pieces for room air conditioners. So, what kind of a market share that you are targeting? Let's say revenue market share you are targeting from 10 million RAC market in India. Do you have enough capacities for that after present year's CAPEX? So, just trying to connect the massive revenue potential from the capacities that you have and the market share that you are thinking from the 10 million AC opportunity.

Jasbir Singh: So, Nitin if you see today on the value term perspective what we are offering to the industry, we have about 26.6% market share on the value terms. That is based on the number of about 7 million. Now when it inches towards the 10 million mark, I think we should be able to expand our market share by at least 200 bps or maybe more because we are expanding into components more now. On the value terms we would not need any kind of a CAPEX for 10 million mark at least on the assembly part of room air conditioners. We may need little slight CAPEX for the component side, now that will depend on how we move ahead. Whether heat exchangers are



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required or inverter PCB boards are required. But on a value term basis I think we should be able to maintain or grow our market share if it inches towards the 10 million mark.

Nitin: So, basically, you are looking at something like 29% market share on 10 million pieces and industry should be roughly at what Rs. 23,000 per set at that time do you think or Rs. 24,000, is that the right way to look at it?

Jasbir Singh: No. In the in the bill of material side I think it would be little less. If you talk today on the bill of material side it is roughly at around 19,000.

Nitin: Do you think price inflation will happen on this 19,000 by about 5% because of all the effects of BEE premiumization etc. or do you think it roughly stays there at 19 to 19,500?

Jasbir Singh: Very difficult to predict because now I don't think so that for next 3 years BEE will be changing the table. So, from BEE impact I don't think so it will come, but inflationary point is very difficult to predict but we can definitely take a 3% to 5% range for inflation every year.

Nitin: Second question was about the Japanese. A lot of Japanese are putting up captive manufacturing capacities and they are also thinking of India as X growth base. They have global technology parentage and backing also by this Hitachi or Daikin. So, help us understand that how, what is your competitiveness, strength or weakness versus these Japanese and how you can work Japanese either as a strategic player at some point in time or you don't need that?

Jasbir Singh: If you see Nitin, we are working with most of the Japanese clients. We have a Panasonic we have Daikin, we have Hitachi, we have Mitsubishi, Toshiba, Fujitsu General. We are working with most of them. They do take lot of time to onboard a B2B solution provider like us. We have been able to penetrate and give them solutions. Now we are increasing our wallet shares as we move ahead. And yes, you are right some of the Japanese companies, I cannot name them, but they are thinking to shift geographies of exports from India. That 3-lakh number actually which I said is going to happen, part of that will happen through them also. So, it depends on how they are likely to shift some and even our government of India is wanting now since the dedicated export counsel is getting set up at the various positions in government, there is going to be a very focused approach from government also to convince multinational companies to shift their geographies. In fact, that is the lowest hanging fruit in our sector now. If we are able to convince some of the multinational especially Japanese and Koreans to shift their even small numbers, it will actually help expand the manufacturing footprint in India, where company like us is well positioned to take advantage of that.

Nitin: You're saying that when you give that indication of export, roughly you could be working through the Japanese companies, helping them with components or assembling on their behalf so that they export their brand from India, is it?



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Jasbir Singh: Well, I don't want to state a nationality of the customer but yes, they are multinational companies which we are working, it may be a direct export also. The agenda is to export whether direct or indirect doesn't matter.

Moderator: Next question is from the line of Hitesh from ICICI Direct.

Hitesh Taunk: I have two questions. One is on the import front. The government has put up a ban on import of a full gas build AC. Have you seen any reduction on the imports of the AC in the last 2 years? Earlier I think it was around 3,000 to 4,000 crores of import.

Jasbir Singh: Roughly about 2 million units were getting imported in FY19 and then September '20 was when the gas ban was impacted. After that we have seen 88% reduction in the finished goods category. There are some few customers who are importing air conditioners minus gas. So, nobody is able to bring the full finished goods now. That has 100% been banned. There are few customers who are getting the kits and we are likely to start getting shift those customers into manufacturing units in India. I think by next year there should be 95% reduction in the imports, right now it is about 80% reduction.

Hitesh Taunk: Second question is on the PLI front, you said like you are going to hit the threshold of the PLI revenue, so we have a PLI in the different product category. Could you please quantify what kind of threshold level is required to get the benefits for us?

Jasbir Singh: We are eligible for 300 crores in Amber and 100 crores in ILJIN which is our electronic subsidiary. This CAPEX has to happen in 5 years, where the first year was the last year. What the threshold of the CAPEX has already been done. So, that is a tick mark. Now we have to bring in 5 times the CAPEX done last year incremental sale this year. That is also being done. We don't see any hurdles achieving those numbers. After that we will get 6% on the incremental sales as a first-year incentive. So, which will be...the quantification of that will become evident by about, it will be approximately 15 crores for the first year.

Moderator: Next question is from the line of Gopal from SBI Life Insurance Co. Ltd.

Gopal Nawandhar: My question was on, there has been a lot of competition at the brand level and many of these companies are in this good season have reported negative margins. Do you expect consolidation of brands in this competitive environment?

Jasbir Singh: Well, very difficult question to answer because we are a B2B player. We are not in the marketplace. There are many brands listed on the BEE website, if you see those are people who are selling air conditioners, more than 50 of them. Yes, but the market is already consolidated, 80% of that goes through 10 or 12 players. So, 75% to 80% is catered by them. Maybe moving forward once the industry touches about 2 crores, 3 crores air conditioner we should see some kind of a consolidation. But right now, it is to early a stage for consolidation.



- Gopal Nawandhar:** Reason was basically we're also supplying to a lot of these fringe brands. Will that have any impact on our volumes or have we seen any effect on those brands in our volume share?
- Jasbir Singh:** We have seen market shares getting exchanged between brands in last two decades. And we are a solution provider to the industry. I mean if someone merges one company with another one or someone buys someone out, they change their market shares. Since we are supplying to most of the brands, I think we should not be affected at that point of time. In past also when we have seen, today Voltas is the leader. last 10 years back somebody else was the leader. When the market share has dropped off that brand that we continued to grow because we were giving solutions to Voltas also and to others also who were having the market share increases.
- Gopal Nawandhar:** The second question is on the gross margin for a standalone business, is there any one-off on the gross margin or there is no one-off in the gross margin?
- Jasbir Singh:** There's no one off.
- Gopal Nawandhar:** So, basically, in the last quarter call, we suggested that this pass through of cost majority of that will happen in the next quarter which was like current quarter. So, we used to do a gross margin of 14%-15% and we are still hovering around 10.5%-11% and again we are going for next two weak quarters. How we are going to recoup this loss on the gross margin?
- Sudhir Goyal:** Increase in the commodity prices which happened in the Quarter 4 of the previous financial year, that was not eased out in the Quarter 1. Rather there was a further increase in the month of April and May. That is why there is no decrease in the gross margins. If you see, let's assume there is Rs. 85 of a RMC on Rs. 100 selling price and if Rs. 10 is increased in the raw material prices to 95 and we increased the selling price by Rs. 10, 110, so 15 or 110 in percentage terms it always looks depressed. In a reverse cycle whenever there is ease out of the commodity prices you see a percentage margin increase in the gross margins. Since commodity prices are not eased out, rather they were stable at that point of time in the month of April but rather further increased it. That is why there is no ease out in the percentage terms of gross margins.
- Gopal Nawandhar:** So, when it declined, so it should reverse basically.
- Sudhir Goyal:** Once it declines to the previous level then you will see a better gross margin percentage terms.
- Gopal Nawandhar:** The last bit on the ESOP charge. If you can just give some color on why we are differentiating it as a separate line item, not part of EBITDA?
- Sudhir Goyal:** We are differentiating it since it's a non-cash item for us as it is not impacting our cashflow, that is why we are showing it as a separate line item.
- Gopal Nawandhar:** This 15 to 20 crores range, this will continue every year?



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Sudhir Goyal: No, it is steadily going down if we don't come up with a new ESOP scheme because first year it is always a higher impact on the P&L and in the next 2-3 years it gets declined.

Moderator: Thank you very much. Ladies and gentlemen due to time constraint that will be the last question for today. I now hand the conference over to the management for closing comments.

Jasbir Singh: Thank you everyone for joining on the call. I hope we have been able to address all your queries. For any further information kindly get in touch with us, or strategic growth advisors, our investor relations advisors. Thank you and have a good day ahead.

Moderator: Thank you very much. On behalf of Amber Enterprises Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.