"Amber Enterprises India Limited Q4 FY-18 Earnings Conference Call"

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Moderator: Good day ladies and gentlemen and a very warm welcome to the Q4 FY18 Earnings Conference Call of Amber Enterprises India Limited. This conference call may contain certain 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.

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I am now glad to 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: Good afternoon everyone and a warm welcome to our Q4 and FY 18 Earnings Conference Call. Firstly, on the half of Amber Enterprises India Limited I would like to thank all our investors who have shown faith in Amber and has successfully helped us sail through the IPO in January 2018. Today I am joined by Mr. Daljit Singh – Managing Director, Mr. Sudhir Goyal – CFO and Strategy Growth Advisors, our Investor Relations advisors.

We have uploaded our Updated Results Presentation on the exchanges and I hope everybody had an opportunity to go through the same. Since this is our first earnings call, we would like to share some brief information about our company and an overview of our business performance followed by financial performance for the quarter and year ended FY 18.

Amber is an integrated solution provider in the Room AC segment. We have leadership position in OEM, ODM industry in the RAC segment. With our comprehensive product portfolio, we serve 8 out of top 10 marquee brands in India and with a combined market share of more than 75% in Room AC segment. With over 3 decades of history and 12 manufacturing facilities, strategically located near customer clusters and high degree of backward integration, Amber is able to supply almost all critical and reliable functional components except compressor in the Room AC segment. With continuous focus on ODM through R&D initiatives we are able to develop new efficient products and functional components which offer a high value proposition and help us in import substitution of those products and components. In line with our strategy to capture more market share increased offerings to our customers and expand our client relationships, we have made 2 acquisitions; IL JIN Electronics and Ever Electronics to get access to the **"Smart Future Ready Technology"**. IL JIN was acquired in Q3 FY 18 before the IPO and is one of the largest PCB manufacturing companies in the space of air conditioners and white goods category. We hold 70% equity stake in IL JIN Electronics as on March 2018.

Amber also holds 19% stake in Ever Electronics as on March 2018, and intends to acquire additional 51% in coming quarters, taking the stake to 70% in total. We believe these acquisitions will add substantially to our revenues and profitability in the years to come. For Amber these both acquisitions are very timely one since the industry has been continuously shifting towards energy efficient inverter air conditioners which now contribute almost about 30-35% of the overall industry volumes. This gives Amber an opportunity to not only increase the wallet share of existing customers through cross selling of products within the existing customers, but also add new customers.

On the industry update, the air conditioning industry has witnessed several headwinds during FY 18, led by GST transition and the change in the energy efficiency ratings. Slower industry growth was actually attributed to GST disruption & rating change. However, over the long term, we are very optimistic about the potential that the industry has. In India, AC penetration still remains at a very low 4-5% penetration. India significantly lags other countries in terms of AC penetration levels. More importantly, even the improving macroeconomic conditions, ACs are now considered as a necessary rather than a luxury item with many houses even installing multiple air conditioners. Unlike products like refrigerators and washing machines which reaches a maturity over a period of time with one or two products per house, ACs can reach the maturity with multiple installations per house and moreover this product caters to other than household categories like colleges, schools and hospitals. This particular phenomenon can lead to significant potential for expansion and penetration in the under penetrated economy like India. Along with the above, the efforts taken by the government, like power adequacy and reducing per unit cost of power, our products are seeing increased demand. Our 3-pillar strategy of product expansion, customer expansion and geography expansion by way of R&D and excellence in execution has helped us grow faster than the industry historically. We are confident in the current circumstances that we shall continue to do the same in the future as well.

Moving forward towards the financial performance, in the last year we had anticipated, an increase in demand for our products along with the change in preference from the customers for inverters instead of fixed speed ACs, to capitalize on this opportunity we had done some investments in existing capacities along with the acquisition of Ever Electronics and IL JIN Electronics. We also strengthened the existing customer relationships and added new customers in the last year. This, along with the introduction of next generation products has resulted in increased sales and profitability in this year. Q4 was good quarter for us due to early summers and placements of goods in March by many brands. The industry saw a shift in the product portfolio from fixed speed to inverter ACs in the last quarter of this year. Total revenue for Q4 FY 18 stood at Rs. 692 crores as against Rs. 617 crores for the corresponding quarter last year, a growth of 12%, adjusted for GST and excise duty impact.

EBITDA stood at Rs. 68 crores as compared to Rs. 56 crores for the corresponding quarter with the growth of 20%. EBITDA margins were about 9.8% for this quarter, almost 70 bps higher on year-on-year basis. PAT for the quarter is Rs. 34 crores as compared to Rs. 23 crores for the corresponding quarter last year. This is due to the operating leverage playing out reduction in interest cost due to repayment of the debt from the IPO proceeds. PAT margins stood at 4.9% for this quarter approx. 120 bps higher than Q4 FY 17.

We also achieved a robust growth on a yearly basis. Consolidated revenue on the yearly basis was up by 29% to Rs. 2,128 crores for FY 18 as compared to Rs. 1,652 crores in FY 17, adjusted for GST and Excise. EBITDA grew by 41% from Rs. 131 crores to Rs. 184 crores in FY 18 in absolute terms, taking the EBITDA margins to 8.6% in FY 18. We also witnessed an exponential growth in PAT margins as compared to FY 17. PAT stood at Rs. 62 crores for FY 18 as compared to Rs. 22 crores for FY 17, up by 181% year-on-year basis. PAT margins for FY 18 is 2.9%, approx.160 bps higher than FY 17. On volume terms, we have grown by 26% as compared to FY 17 and now the total sale in unit terms is 1.91 million for FY 18. This includes all the 3 segments, Indoor units (IDU), Outdoor units (ODU) and Window AC (WAC). We have grown at a CAGR of 39% in terms of volume, with FY 14 being the base year.

Commenting On segmental revenue, AC comprises of 72% of our total revenue, that is Rs. 1,525 crores for FY 18 as compared to Rs. 1,252 crores in FY 17, a growth of 22%. AC components and non-AC components comprise of 14% and 15% of total revenue respectively for FY 18. AC components grew almost by 50% and non-A/C components grew by 47% on full year basis.

On the future outlook we would not like to give any guidance for the future. However, we can give you directions of our performance for the years to come. With the help of our acquisitions Ever Electronics and IL JIN Eletronics, we are confident and ready for the future with a **"Smart Future Ready Technology"**. You will see a full year impact of these acquisitions in the revenues and profitability in the coming year. We have added new customers, strengthened our existing relationships, increased our product offerings by way of strong R&D in the last year. We shall continue our focus to keep on expanding these in the future as well. This will help us grow faster than the industry in the years to come. As we see an increase in volumes for our products, our investments that we have done in the past will see better returns. Increased capacity utilization will lead to operating leverage playing out, leading to a better profitability. To conclude, we would like to say it is the company's enduring commitment to outperform the industry growth while transforming top line growth into a healthy bottom line results. With this, everyone, I open the floor for discussion.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ansuman Deb from ICICI Securities. Please go ahead.

Ansuman Deb: I had the question regarding the Ever and IL JIN contribution in FY 18 and what was the contribution of Ever and IL JIN in our total revenue mix if that could be shared in this?

Jasbir Singh: Yes. Do you want to go ahead with another question?

Ansuman Deb: Yes, that was question no. 1 question no. 2 is regarding your working capital. So there has been a little bit of increase in the working capital days from 29 to around 35 in FY 18. So that would be by second question.

Jasbir Singh: Sure. So on the IL JIN Electronics because this company was acquired in last quarter in December before IPO so it has only contributed us in the revenue terms in the last quarter that is Q4. So, it is approximately Rs. 100 crores revenue has been contributed by IL JIN and Ever has not contributed anything on the revenue because we have just 19% stake so there is no consolidation which has happened on the revenue side. Whereas but on the Ever we are looking forward to upscale our stake moving forward then only in this current year it will be consolidated.

But on the net working capital days because of the certain pattern shifts in the summer season, we have ended up on the high stocks. So that has contributed to the days going from 29 to 34, otherwise it was totally in line to what we had expected.

Ansuman Deb: Right, on a follow-up on the Ever and IL JIN basically, I wanted to understand the impact of the entire Ever and IL JIN on a complete basis in FY 19 on a like to like basis, what could be the impact on revenue in FY 19?

Jasbir Singh: So IL JIN has done total revenue for FY 18 for about Rs. 330 crores and we are looking forward for a growth of 15-20% in this company and Ever has done revenue of close to about Rs. 225 crores in FY 18. Again, we are looking for a 15-20% growth in that company.

Ansuman Deb: And the margins in these companies would be currently around 4% which should have some room for improvement. Is it the right understanding?

Jasbir Singh: Currently, the margins are 3.5% on the EBITDA terms because this company did not have its own R&D, we have now punched in our R&D into this, and we have integrated this. So, we are looking forward for an increase in 1-1.5% of margin expansion in this company from next year onwards. The reason why I'm saying next year onwards is because this is a product which is the most critical and reliability product in air conditioners today, especially in the inverter air conditioners. So, all the companies which we are now looking forward to start association with they are going through their long reliability cycle. We expect the reliability cycle to get over by December or January. So, in Q4, you will see a very marginal things coming out from new customers. But from the next year onwards, you will definitely see a 1.5% jump in the margins.

Anushman Dev: One last question is regarding the overall ODM share. So as of FY 17 we were 19% of the total market and the outsourced market was around 55%. Would you have any estimates or anything of as of now what would be the shares FY 18?

Jasbir Singh: No we don't have that kind of an industry update on where we do stand today. But I think we should be in the same range where we were last year.

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

Aditya Bhartia: Sir just wanted to understand how is the current season progressing because we understand that there has been some unseasonal rains and showers in the northern part of the country and what is your expectation for the overall FY 19 for the industry and what could that mean for Amber?

Jasbir Singh: So historically we have been working in this sector from last about 20-25 years, so we have seen such kind of sudden pattern changes in the seasons especially summers which are coming up. But these sudden pattern changes do definitely impact on the quarterly basis but doesn't change the outlook of the sector on a long-term basis. So maybe we see a flattish kind of a Q1 on the kind of complete industry but looking into the June and also humid season which is coming up in July and August, we think that all the industry players will definitely match the volumes what they are anticipating on the yearly basis.

Aditya Bhartia: Understood and sir in this particular quarter we saw gross margins expanding. What has been the reason for the same especially as commodity prices have been increasing?

Jasbir Singh: So, you know commodity prices, we definitely pass on to our customers because we work on the PVC clauses, currency and commodity exchange is definitely passed on. There is no large impact on that per say but largely it is basically the operating leverage which is coming up, expenses are not going up whereas volumes are substantially increasing. So that is why there is a definitely northern movement on the margins.

Aditya Bhartia: But sir it is not only EBITDA margins that has been going up but even in the gross margin side, we saw an improvement. So operating leverage is in gross margins, as well?

Jasbir Singh: No, so there is a product mix change also so there are definitely new products and other older products which we have changed with the new Energy Rating concept which are giving us greater margins.

Aditya Bhartia: Understood sir and lastly sir we have restated our FY 17 numbers under Ind-AS. If you could run us through the key adjustments that have been made, that could be extremely useful?

Jasbir Singh: Sure I think I will hand over to our CFO to answer this. Sudhir.

Sudhir Goyal: Yes, Hi Aditya. So there are the adjustments for the Ind-AS conversion from the IGAAP. The major adjustment for the same is the long-term borrowings and the leasehold lands. So once we restate the same as per the Ind-AS there is an impact of the same on the numbers.

Aditya Bhartia: But what exactly is the adjustments sir on long term borrowings especially because your interest expense for last year has gone up and also there has been a change in the tax rate.

Sudhir Goyal: See there is a loan processing fees and majorly a loan processing fees which has got amortized over the period of the term loans that got adjusted in the current financial year because of Ind-AS adjustments. Same way as the lease hold land which is 99 years lease under IGAAP it is being considered as a land but under Ind-AS it is being as a lease hold land and the amortization of the lease is over the period of 99 years got adjusted in the Ind-AS financials.

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

Pritesh Chheda: Yes, sir adjusting for the Rs. 100 crores consolidation of the acquired company IL JIN, if you see that the growth in the business is about 17% for FY 18, now this is largely in line with the AC volume growth. Sir I am just trying to understand why for you the growth is low where there are certain other overriding drivers for growth for your company.

Jasbir Singh: See if you see it on a standalone basis, there is a growth of about 23% so we have done about Rs. 1,923 crores in Amber itself as a company which has outnumbered the industrial growth. And on the volume term the industry has grown by 10-11% so we have done about 26% on the volume terms which I think demonstrates the company's capabilities to deliver and outperform the industry.

Pritesh Chheda: How much is the volume term growth rate for Amber?

Jasbir Singh: 26%.

Pritesh Chheda: Okay. And secondly when I was looking at you balance sheet there is some cash still left and possibly at the IPO time, the entire IPO money was supposed to be used to repay the debt. But there is some debt left in the balance sheet and also cash. So what are your thoughts there and what are your thought on the interest cost expenditure for FY 19?

Jasbir Singh: So when we raised IPO proceeds of Rs. 400 crores it was supposed to go to the repayment of debt which had happened, which has already happened on the same day when we got the money. And the remaining portion of Rs. 75 crores was for the general corporate purpose and IPO expenses. So there were certain IPO expenses which have still not been paid because there are bills which have to be raised. But other than that on the debt side, if you see the long term debt we have already repaid and there is only Rs. 16 -17 crores of long term debt which is standing on the books and there is a substantial decrease today. Today as on March 31, we stand on net debt positive figure.

On answering on the interest side, we are looking at almost close to about Rs. 40 crores of interest payments reduction in the current year.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Just a clarification on what Pritesh asked about the interest cost decline. You said Rs. 40 crores would be the reduction, or you are saying Rs. 40 crores is the interest cost you will be paying in FY 19?

Jasbir Singh: No, it will be the reduction. So, we have ended up the interest cost stands at about Rs. 53 crores in FY 18. So you will see a Rs. 40 crores reduction in that because of the debt repayment.

Nitin Arora: Got it. So now coming back to the industry side, though the stocking up has been higher and, there has been issues for weather and all but there has been the season has almost 1.5 months we are almost at end of May, has the inventory level gone up for you as a whole from this level? And plus, is it we should look beyond now Diwali is the season where we should be leading to? So just wanted a take on that.

Jasbir Singh: No, there has been a bit of an inventory level up as on 31st March because certain pattern changes in March itself led to little bit of reduction on the sales volume. But that has been consumed in April and May. So we don't see that the inventory level should be going fastly up until and unless there are again rains coming up in the June month.

Nitin Arora: So what is our volume growth? When you say that Q1 could be flattish for the industry for the whole year how you are seeing the total volume of units?

Jasbir Singh: We are looking for a volume growth of 20% of this year again and we have a very healthy order book. We have added 4 new customers which have just contributed in Q4, whereas their contribution in the complete year will be reflected in FY 19 and we have added some new products in Q4, which will again be reflected in FY 19. So we are looking forward to deliver close to about 25-30% consolidated basis revenue growth.

Nitin Arora: And when you say 20% volume growth, you only say for Amber, right for a standalone?

Jasbir Singh: Yes, so that is right, so you were asking about the volume terms. So, the volume will definitely be in the Amber, so on a volume we are looking for about a 20% jump.

Nitin Arora: And sir in terms of the CAPEX and the debt I just wanted from the IL JIN and the Ever, any debt is there? And also wanted the CAPEX for the next year?

Jasbir Singh: Yes, there is a debt of close to about Rs. 35-40 crores in IL JIN and there is about close to Rs. 5-6 crores in Ever and there is hardly any CAPEX requirement right now as the capacities are enough. But I think because we are now shifting largely, the industry is largely shifting towards inverters, so we should be ready. There will be marginal CAPEX of about Rs. 5-10 crores in IL JIN and Ever put together.

Nitin Arora: So Rs. 10-12 crores are what the CAPEX for the next year?

Jasbir Singh: For both the companies.

Nitin Arora: For both the companies and for Amber itself that would be the same or?

Jasbir Singh: For Amber because we have got 12 plants now so there will be maintenance CAPEX of close to Rs. 2.5-3 crores each plant which contributes about a Rs. 36 crores and then there is an R&D and the tool investments which we are continuing. So you can expect a CAPEX of Rs. 45 crores in Amber as of that is what the plan is today. However, I would like to clarify that we are in discussions with customers for geography expansion. So, there may be possibility that we come up with a new Greenfield facility. Right now, it is not on the cards. But we are in discussion so whenever that happens we will definitely inform everybody.

Nitin Arora: So when we talk about our customer addition here and putting up assembly line that would be the CAPEX right. So, is it the existing one only or there are some new customer additions and is there a CAPEX we should be assumed to be like what you did for Panasonic, is that the CAPEX which is there?

Jasbir Singh: Yes, it is something like that what we did in Jhajjar for Panasonic, so we are in discussion with somebody, but it's not yet been freezed. So as soon as we get a green signal, we will definitely inform. But right now, as of today the CAPEX plan for the complete year stands at Rs. 45 crores.

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

Abhijeet Anand: Yes, thanks for the opportunity. Sir I just wanted to, in terms of volume growth we have done around 26%, is it possible to breakup it between window, split and inverter?

Jasbir Singh: We can give you indoor, outdoor and window. So out of total 19.09 lakhs, almost 46% is indoor and 38% is outdoor and remaining is window.

Abhijeet Anand: And can you also let us know the PICL performance in sales, EBITDA and PAT?

Jasbir Singh: So PICL on terms of sales it has done Rs. 142 crores of sale and the EBITDA of Rs. 8.6 crores.

Abhijeet Anand: PAT?

Jasbir Singh: So PAT is about Rs. (-1) crores, last year it was Rs. (-2.5) crores. But this year it is Rs. (-1) crores so there is a reduction in the PAT level in PICL.

Abhijeet Anand: Any concerns that you are seeing there because I think it used to be profitable till FY 16, right?

Jasbir Singh: So we are seeing a lot of headwinds from the Chinese imports, so there are two things in PICL which happened. PICL used to export to Saudi Arabia and Bahrain quite a bit, but because of oil crisis that whole export order came down. But now we have changed the product line-up mix into domestic more and exports less. So earlier it used to be a 50% export and 50% domestic. But now we have taken the complete shift to almost 80% domestic and 20% exports. So, reliability on exports has been reduced because the Saudi Arabian market and Middle East markets have not picked up. So we changed the strategy, this year you will find a positive pattern in PICL.

Moderator: Thank you. The next question is from the line of Balwinder Singh from Canara HSBC Insurance. Please go ahead.

Balwinder Singh: Firstly, if you can highlight, if it is possible, which are the 4 customers that you have added? And secondly, you also indicated that you have added some products so what exactly are those new product lines that you have added?

Jasbir Singh: So we have added 1-ton indoor and we have added 2-ton indoor in our product portfolio plus some inverter models of outdoor in each category. And on the customer side we have added 4 customers; we have added Micromax, we have added Vestar, we have added Cruise and we have added Carrier.

Moderator: Thank you. The next question is from the line of Dhruv Bhatiya from AUM Advisors. Please go ahead.

Dhruv Bhatiya: So now you just mentioned the volume breakup of indoor, outdoor and window. Is it possible to give a value breakup as well?

Jasbir Singh: Value breakup for all the 3 segments?

Dhruv Bhatiya: Yes.

Jasbir Singh: Yes, we don't have right now handy with us currently. We can definitely share it later on.

Dhruv Bhatiya: And you mentioned that Ever has EBITDA margins of 3.5% is similar for IL JIN also?

Jasbir Singh: Yes, it is almost the same.

Dhruv Bhatiya: And are their net levels making money?

Jasbir Singh: Yes, they are profitable companies both of them.

Dhruv Bhatiya: And how much would be the PAT of both the companies together?

Sudhir Goyal: IL JIN is having a PBT of around Rs. 2.6 crores against a total turnover of Rs. 340 crores. And Ever is around, I need to check because Ever did not get consolidated in the Amber books, so we will give you separately.

Dhruv Bhatiya: And in the presentation you have mentioned the AC components and non-AC components revenue and you have given the IL JIN Q4 revenue of Rs. 100 crores. So where is it getting reflected? It seems like the business is de-growing otherwise.

Jasbir Singh: So, it is getting reflected in the AC and non-AC components.

Dhruv Bhatiya: Split between both?

Jasbir Singh: Split between both because IL JIN and Ever not only supplies for air conditioners, they supply inverter boards, for refrigerator, washing machine and microwave.

Dhruv Bhatiya: So, could you give the breakup on Rs. 100 crores?

Jasbir Singh: No, I mean we don't have handy of complete Rs. 100 crores breakup in terms of which, segment wise breakup. It just totally into the component side so they don't manufacture complete, so they are just supplying the components direct online to the assembly lines of the customers.

Dhruv Bhatiya: And are these EBITDA margins for the full year what you have reported of 8.6% sustainable, do you see any probably operating leverage benefits because of the growth that you were anticipating?

Jasbir Singh: Certainly, they are maintainable in fact we are endeavoring to increase those on this but it is basically what we see as a management is, are we doing a positive CAGR of 25-30% in the absolute terms because on the percentage terms, it can vary due to the product mix and the commodity exchange happening. But what we keep an eye on is absolute numbers. So, absolute, we have done good, it has been about 41% jump in the EBITDA terms in the last year on consolidated basis. So we will definitely endeavor.

Moderator: Thank you. The next question is from the line of Nishit Jalan from Kotak Securities. Please go ahead.

Nishit Jalan: Sir I have 2 questions, firstly just wanted to understand the CAPEX intensity in the business. For example, if you decide to set up a capacity of say 100,000 AC, what kind of CAPEX do you need incur for that?

Jasbir Singh: So it all depends on what kind of product mix category is required by a customer. There is no thumb rule that we just go for 1 lakh capacity, we have to do this.

Nishit Jalan: Sir, any ballpark numbers split ACs indoor – outdoor both combined if you want to set up say for example 1.5 ton AC so what kind of CAPEX?

Jasbir Singh: So our CAPEX is a hybrid of components as well as finished goods. So it is not necessarily that a customer would need the assembled products. It could happen that they need only sub-assemblies, it could happen they need only components. So, we are an integrated solution provider in the space and accordingly we do it so on the CAPEX side I think it completely depends on what customers' need is.

Nitin Jalan: Let me put it another way. What kind of asset turns are there in your business basically?

Jasbir Singh: So there are different asset turns in different sectors like in electronics you can go to almost 9-10 asset turn whereas in our industry asset turn of 5-6 is possible. So we are at 3.3 right now and there is definitely a possibility to move ahead.

Nitin Jalan: Sir my second question is you mentioned that you are incurring R&D expenses basically as the industry is moving towards inverter ACs so which kind of components we will see significant changes because of shift towards inverters ACs from fixed speed ACs?

Jasbir Singh: So difference between a fixed speed ACs and an inverter AC is largely because of there is a large inverter PCB Board, which goes into where it inverts the frequency and reduces the compression cycle thus giving a less power consumption. So electronics inverter PCB Boards and definitely on the refrigerant side, there is a change. There will be a change in the tubing side also and of course on the chassis side.

Nitin Jalan: Okay my final question is, you mentioned that the volume was some 1.91 million, that separately includes say for example, if you supply one indoor and one outdoor to the company will be counted as two will be counted as one?

Jasbir Singh: We have given in terms of units. So that means if we have given 19.09 lakhs, so out of that almost 9 lakhs will be indoor then almost similar number will be outdoor and close to about remaining is window.

Moderator: Thank you. The next question is from the line of Khadija Mantri from IIFL. Please go ahead.

Khadija Mantri: Sir, most of my questions has been answered. I just wanted to know if you can disclose contribution of top 5 customers to your FY 18 sales.

Jasbir Singh: Yes, so top 5 customers were Panasonic, LG, Daikin, Hitachi and Voltas.

Khadija Mantri: And can you give the contribution from each customer? Is it possible?

Jasbir Singh: So, I would not like to disclose each customer these are some sensitive data of the customers. But in totality these 5 customers have contributed about 70%.

Khadija Mantri: And sir another question is, is it possible for you to provide figures for operating cash flow and free cash flow for FY 18?

Jasbir Singh: I think we can proceed to the next question, will give it during the end of the call.

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

Monali Jain: I was asking how much the inverter AC contributed in the total sales in terms of percentage and what is the guidance for FY 19 for inverter ACs for the industry as well as for Amber?

Jasbir Singh: Amber's contribution in terms of the volumes is close to about 32% and I think industry has also been doing 32-35% range. On guidance side, I think we will be in line with industry. So if you see calendar year January-April industry has crossed the 50% mark and so is our trend moving.

Monali Jain: Okay, sir, what is the current ODM and OEM share of the company?

Jasbir Singh: We are at about 83% ODM.

Monali Jain: Okay and sir what are the debtor, creditor inventory days for like AC and non-AC, if you can bifurcate?

Jasbir Singh: So the net working capital days are 35 as of date.

Monali Jain: The debtor, creditor and the inventory days for AC and non-AC.

Jasbir Singh: We do not track AC and non-AC side, we have a consolidated number.

Sudhir Goyal: So inventory days are around 61 days, trade receivables is 63 days and trade payable days is 90 days. So net working capital days is coming to 35 days.

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

Abhijeet Anand: I think the inverter AC as you mentioned in this calendar has moved to the 50% mark. You being in the industry for more than 20 years, what is your guess in terms of how far in terms of proportion, it can go considering in India, we have a lot of smaller towns as well where maybe there may be issues?

Jasbir Singh: Yes, so I think the level of awareness and the speed of awareness has drastically changed in the past 10 years because of social media and other things. So generally, the industry was not expecting this kind of an exponential jump towards inverters, but suddenly there has been jump because people are asking for inverters, people are more aware of more energy efficient products. So if you see on a longer-term I think Japan is like 100% inverter market. So, I'm not saying that we will turn out to be 100% market very soon. But yes, we will be adding for a good growth in the segment. So if we end up having 50-55% in FY 19 we should look at something about 65-70% next year.

Abhijeet Anand: And this is more from the market perspective, so from the AC industry, what could the top 10 cities and top 20 cities contribute? Just trying to understand where the growth is, Tier-3, 4, 5 or is it still concentrated on the top 2-3 Tiers?

Jasbir Singh: The AC industry growth is now widening. Earlier, southern and the western coastal belt used to contribute very less percentage 10 years back. But today it contributes about 34-35% of the sales and North contribution is again at 35-36%. So there is a quiet, we are seeing landscape change of the market share between the 4 regions of India and I think right now it is quite concentrated in 3 sectors except the East part. So all the cities are now gathering, even in we are seeing in Himachal Pradesh and Uttarakhand where hill stations are consuming a lot of air conditioners. So what we are witnessing is that a lifestyle change which is impacting and power adequacy, which has helped. Our country is moving towards a power adequacy state and all the Tier-4 cities even Tier-3 cities are consuming a lot of air conditioners because it is no more a summer’s product, it is no more a product where you will buy when it will be 45°. So just as the temperature goes above 28-29° you don't feel comfortable. So that is where I think the industry will continue growing.

Abhijeet Anand: So just on the perspective that if the say top 5-10 cities which may be 5-10 years back AC was bought say Delhi, Bombay or Calcutta whatever is the region, are these demand centers getting a very slow growth may be low single-digit and it is the other parts where we are seeing growth or there is demand in both the parts?

Jasbir Singh: No there is equal demand in both parts, even the 5 cities which you mentioned there is lot of replacement happening because the replacement cycles in air conditioners have shortened from 13 years to close to about 8 years. So, a lot of upgradation of windows to split and split to inverter air conditioners is happening in these cities. Whereas the first-time buyers are the cities other than those which are Tier-2 or Tier-3 cities.

Moderator: Thank you. The next question is from the line of Saral Seth from Karvy Stock Broking. Please go ahead.

Saral Seth: I wanted to ask that for the full year you have grown by 28%, whereas for the quarter you have grown by only 12%. So, is there any weakness which has come in this quarter or what would be the full guidance for the next year or probably FY 20? What could be the growth guidance?

Jasbir Singh: So if you see the last quarter was impacted because of the sudden summer shift otherwise the numbers should have been more but still we did better numbers than the industry.

Saral Seth: So which regions where impacted by this summer growth?

Jasbir Singh: So the entire north was impacted, there was hardly any summer's uptake in the northern part of India, which contributes about 35-40% of the all India sales. So there we saw that our customers are finding difficult to sell because summers uptake was not there.

Saral Seth: So would there be any inventory pushover from the last quarter to this quarter?

Jasbir Singh: No there is hardly any inventory pushover because we have a standard inventory system where generally it is a make-to-order kind of a thing, so we are not ending up with a huge inventories with us.

Saral Seth: Okay, so what guidance you could give for the full year, FY 19 if any?

Jasbir Singh: On the revenue side?

Saral Seth: Yes, revenue.

Jasbir Singh: So revenue side we are looking to almost touching in the range of 25-30% on a consolidated basis.

Moderator: Thank you. The next question is from the line of Rakesh Jain from Asit-C Mehta. Please go ahead.

Rakesh Jain: Two questions – the first one is, you mentioned about the backward integration does our margin reflects this complete backward integration or there is still scope of improvement whether this integration will be factored-in in the future quarter and our margins could improve from here?

Jasbir Singh: So on the backward integration, the main reason of acquiring IL JIN and Ever was that this was the main component, which goes into inverter air conditioners which was missing in our verticals. So these companies are operating at very low EBITDA and we intent to increase the EBITDA next year, management is working towards it. So, there is a scope of increase in margins, which will be reflected next year. This year the final product performance is dependent on the functionality of these components, so all the customers whosoever we have approached, they have put this under reliability and there is a high cycle of reliability, it takes about 8-9 months, and sometimes 1 year also for clearing the reliability cycle. Once it is there, you will definitely see on the backward integration side, the margin expansion.

Rakesh Jain: So would there be any more CAPEX other companies whom we have acquired?

Jasbir Singh: No, there is hardly any CAPEX; I think we have already answered this question. In these 2 companies put together there will be a CAPEX of Rs. 10-12 crores in both the companies.

Rakesh Jain: Right and sir since we command the highest market share in the industry who are the other peers whom we compete against?

Jasbir Singh: Actually, if you see complete Amber on a consol basis, apple-to-apple, there is no company which has electronics and AC non-AC components plus 12 plants, motors and all so we do have segmental competition, our segmental competition is like in the heat exchanger space we have some Korean companies which are competing, some Indian companies but the number of competitors are 2 or 3 in each segments. And I have seen that competition is also geographical competition rather than a pan India level.

Rakesh Jain: So on the AC segment side also there is no single player?

Jasbir Singh: No there are players in the AC segment, there are players like **(Unclear) 45.18E-Durable**, ZAMIL, Lloyd Electric which competes with us, but none of the players are as backward integrated as we are and they don't offer the electronic solution and motor solutions and other widely geographical spread in India as we are.

Moderator: Thank you. The next question is from the line of M. P. Pathak, individual investor. Please go ahead.

M. P. Pathak: Yes, I would like to know what is our inventory percentage compared to the turnover?

Jasbir Singh: So it is 61 days inventory….

M.P. Pathak: No in terms of value I am asking.

Jasbir Singh: In term of value?

M. P. Pathak: How much inventory do you keep always?

Jasbir Singh: It depends on the order book, so it is a fluctuating thing, so whatever we have to keep long-term inventories for the things which we import so it varies from 18.5% to almost 20%-22%.

K. P. Pathak: And my second question is what is the effect of rupee depreciation, and GST on which will affect your bottom-line?

Jasbir Singh: So the complete taxation, currency exchanges and commodity exchanges we pass on to our customers. So we don't have any impact of GST, we don't have an impact on the currency side and the commodity side. So we pass on to over the customers.

K. P. Pathak: And third is do you face competition from the other AC manufacturing companies which affects your bottom line it is like that?

Jasbir Singh: Certainly, there are competitions in each and every sector, so as we have told that we are present into AC components and non-AC components so each vertical witnesses a competition. And it is a healthy competition we believe in healthy competition environment and efficient companies will move forward and maintain margins. We work very closely on the efficiency level as well as the deliverables and different product basket which keeps us ahead of our competitors.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.

Jasbir Singh: Thank you very much everybody for participating. I hope we have been able to answer all your queries. In case you require any further details, you may please contact us or our investor relation advisors, Strategic Growth Advisors, SGA, for any further clarification. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Amber Enterprises India Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.