



“Amber Enterprises India Limited  
Q3 & 9M FY2019 Results Conference Call”

February 08, 2019



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*Amber Enterprises India Limited  
February 08, 2019*

**Moderator:** Good afternoon ladies and gentlemen and welcome to the Q3 and nine months FY2019 earnings conference call of Amber Enterprises India Limited. 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 performances and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jasbir Singh, Chairman and CEO of Amber Enterprises India Limited. Thank you and over to you Sir!

**Jasbir Singh:** Good evening everyone and a very warm welcome to our Q3 and nine months FY2019 earnings conference call. Today I am joined by Mr. Daljit Singh, our Managing Director, Mr. Sudhir Goyal, our Chief Financial Officer and SGA, our Investor Relation Advisors.

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

We had muted H1 FY2019 on the back of unseasonal rains and inventory buildup in channel however, our Q3 results are good and our overall outlook for the full year remains the same. We have seen this seasonable shift many times in the past, but on annual basis the outlook remains the same and we are confident of outperforming the industry growth, with strong order book in hand. Our AC volumes grew by 14.7% for Q3 FY2019. We were able to sell 4.23 lakhs units for Q3 FY2019 as compared to 3.69 lakhs in Q3 FY2018.

Our nine months FY2019 volumes are 11.54 lakhs, which is lower by 6.7% as compared to nine months FY2018; however, we are confident of coping up this loss in volumes of H1 FY2019 in Q4 FY2019 and partially that has been delivered in Q3. We are optimistic in maintaining our yearly guidance on the back of strong order book, increased traction on an account of custom duty increase, demand forecast by brands, logistical hassles for imports and changing dynamic conditions of room AC market.

I would also like to highlight that not only your RAC division, but our AC components and non-AC components division are gaining momentum and our penetration level with customers is increasing. We have seen a strong growth in our AC and non-AC components over the nine months’ time and even higher growth is expected on consolidated levels due to our acquisitions in IL JIN and EVER electronics.



*Amber Enterprises India Limited  
February 08, 2019*

I will now take you through the operational numbers. We have reported all numbers on a standalone basis.

The total revenue for Q3 FY2019 stood at Rs. 389 Crores up by 15% as against Rs. 338 Crores for the corresponding quarter last year. Revenue from AC grew by 19% from Rs. 265 Crores in Q3 FY2018 to Rs. 314 Crores in Q3 FY2019.

Our revenues for nine months FY2019 stood at Rs. 1217 Crores as against Rs. 1231 Crores in nine months FY2018 marginally down by 1% due to muted revenue in H1 FY2019.

We have seen a strong growth in our component's division as well. Our component division grew by 11% to Rs. 286 Crores in nine months FY 2019 from Rs. 259 Crores in 9M FY2018.

Our non-AC components grew at a faster rate of 16% on nine-month basis and 18% on Q3 FY2019 basis. Our components division for nine months FY2019 comprises of 23.5% of our overall revenues as compared to 21% in nine months FY2018.

In volume terms we sold 4.23 lakhs unit in Q3 FY2019 as compared to 3.69 lakhs unit in Q3 FY2018 up by 15%.

Our volumes for nine months FY2019 are 11.54 lakhs as compared to 12.38 lakhs in nine months FY2018 down by 6.7%; however, our full year outlook remains the same in volume terms and we will be able to cope up for our volume loss in nine months FY2019 in Q4 FY2019, which is generally the heaviest quarter for us due to inherited seasonality in the business.

Our operating EBITDA for nine months FY2019 stood at Rs. 90.5 Crores with an EBITDA margin of 7.4% as compared to Rs. 102 Crores in nine months FY2018. The dip in margins was majorly due to increase in raw material prices, which gets passed onto the customer with the quarter lag.

We also had a muted sales in H1 FY2019 due to unseasonal rains and in the first half of the year and inventory pile up across the channel with the dealers and distributors. This led to volume drop for nine months while the fixed expenses remained same which led to negative operative leverage; however, we see margin improvements for Q4 and full year FY2019 due to lag effect, which has been passed on in Q4.



*Amber Enterprises India Limited  
February 08, 2019*

PAT for Q3 FY2019 stood at Rs. 3.85 Crores and nine months FY2019 PAT stood at Rs. 31 Crores as compared to Rs. 10 lakhs or Rs.0.1 Crores and Rs. 28 Crores respectively for the corresponding period last year.

PAT for nine months FY2019 grew at 10% on Y-o-Y basis, PAT margins for nine months FY2019 stood at 2.5%.

As my closing remarks, I would like to highlight that even though we are hit by some roadblocks like unseasonal rains, extreme winters or cold waves, which are currently observed across the country, our overall outlook on the industry and growth of industry remains the same. We are confident of the industry prospering in the medium and long-term even after some hiccups in the short-term.

With this I open the floor for discussion.

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

**Aditya Bhartia:** Good evening. Sir my first question is on the gross margin pressure that we have seen in this quarter. In the last two quarters while the industry was grappling with the lower volumes, we have still maintained our gross margins or rather expanded them a bit, but this time around we have seen margins coming under pressure what exactly has happened, how should we look at that going forward?

**Jasbir Singh:** Normally as I explained last time also that our set of supplies is we get affected by quarter lag of what industry does like in Q1 industry was -12%, but we were not that affected, but in Q2 we got affected because inventory started piling up and that extended to Q3 also, so we were able to raise prices by end of December with most of the clients, which was primarily due to the steel prices going up and the copper prices going up as well as the Forex lag impact. Now in Q4 all the prices have been corrected, so Q3 especially the first Q2 and Q3 impact you are seeing in the nine months, so in Q4 the results will be inline with what our previous history has been in our inline with the industry, but this is always the lag when industry because now if you see in Q3, the second sales of the markets are not happening, but we are doing good because it is reversely true also, so when we supply the impact of that happens in the next quarter for the brands and vice versa it is true for us.

**Aditya Bhartia:** Regarding the other operating expenses or overhead cost even those appeared to have shown fairly substantial increase this quarter, so how should we look at the business, should



*Amber Enterprises India Limited  
February 08, 2019*

be we building in so far we have not really seen major operating leverage gains coming through, so how should we look at it going forward?

**Jasbir Singh:** You are right whenever this kind of unseasonal rains disrupts the whole supply chain and as well as the inventory levels in the market, the whole supply chain gets disrupted and so are the price increases and the changes in the model line up goes up. So in nine months, our volumes are down by 6.7% whereas we could not decrease our fixed cost, so that is the main impact and we could not get the price increase, because there was inventory lying in the industry, so these two major factors led us to the margin dip, but now everything is on back on track, we have already got the approvals from all the customers for increase in the prices, which we had asked for and Q4 should be definitely positive on the outlook of the margins.

**Aditya Bhartia:** My question specifically was on the absolute level of operating costs that we have recorded this quarter overhead cost which is roughly Rs.23 Crores, which was Rs.19 Crores in the preceding quarter and was Rs.19 Crores in Q3 of last year as well. There is almost a 20% increase in overhead cost and I am wondering what exactly has had taken place this quarter?

**Jasbir Singh:** When the industry started in Q1, it was very bullish and so all arrangements in the industry accordingly on the manpower, our fixed cost, our employee cost, now the main disruption on the margins that had happened by two factors. One is the employee cost and second is the forex impact on the nine months basis. Now both of these two put together, nobody anticipated that industry was actually expecting 15% growth in Q1 whereas industry went -12% so that means there was a issue of 27%, -12% plus 15%, we hope we had anticipated that kind of thing, but you cannot reduce your fixed costs on a sudden basis and this is not a right way to approach that tomorrow industry will not grow, so it is just a one time kind of a season impact, which has happened and now it is back on track, so we think that we should be able to make it up by Q4, because our Q4, we have robust orders in hands and we are delivering the numbers which we had guided for.

**Aditya Bhartia:** Sir lastly what is the kind of capex that you are doing this year and next year and where is the capacity utilization currently and should let us say one or two clients get added, would it mean that you may have to set up a new capacity or do you think that the current capacity can help servicing those new customers as well?

**Jasbir Singh:** We have already added three to four clients right now, three clients have already started production and we have started giving the material in January and another one more client is getting added next month. If I see January we have done much better. Our volumes are substantially up, so on the capacity side, we would like to go and put up a facility in the



*Amber Enterprises India Limited  
February 08, 2019*

south moving forward as we are seeing customer cluster moving there. As I told you last time that we always put up a factory when customer clusters move there since there was only one customer in the southern part of India, we did not invest earlier, but now we are seeing three, four customers going and buying land that side, so we are also planning to put up a facility that side because that is a geographical expansion strategy we have. On the capex side, we have closely done about Rs.75 Crores to Rs.80 Crores capex for the full year in this year. Earlier we had plan to do only Rs.65 Crores capex, because of the custom duty increase and the inventORIZATION taking a stronger pace in the speed, we have invested Rs.20 Crores to Rs.25 Crores more, some in R&D and some in capacity expansion, so that has already been done for the north part of it, but we do not have capacities in southern part if the customer cluster moves there by next year we will be getting ready for that.

**Moderator:** The next question is from the line of Jignesh Kamani from GMO. Please go ahead.

**Jignesh Kamani:** Just wanted to check if you take about commentary from many of the OEMs, they said that still channel inventory is very high both at the secondary level and at their end also, so are you seeing that some of the order they have placed in January or probably in February pickup they want to take it, how they defer it to probably one month or they were reduced your offtake?

**Jasbir Singh:** All of the brands do not have the same kind of inventory level like we have clients like LG which are operating on just few hours of inventory and they are doing pretty level, but there are certain clients which are having inventory right now, but they do not have inventories for all the models, so some of the clients have two ton model inventory, so they are buying 1.5 ton and one ton, some of them have window AC inventory, so they are buying splits, so it is totally differing, so our volume increase has been actually primarily because we have added customer and we have also added new products, energy efficient products in our pipeline and also the inventory which has been sold at the customer in Q2 that is the impact we are having from our customers. So, industry has not grown by 15%, but we have grown in volume by 15% this quarter.

**Jignesh Kamani:** Any color on the aggregate channel inventory right now?

**Jasbir Singh:** On an aggregate basis that will be very tough question to answer on an absolute numbers basis, but on an overall basis more or less what we hear from the brands whom we are serving, that the inventories have been taken care of largely, there are some models, which are stuck, but largely every brand is again bullish on the upcoming summers.

**Jignesh Kamani:** Thank you Sir.



*Amber Enterprises India Limited  
February 08, 2019*

- Moderator:** Thank you very much. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** Couple of questions. On the capacity utilization side, what kind of capacity utilization we have and the current setup what kind of revenues can it support in the AC and the component business?
- Jasbir Singh:** On the capacity utilization side, we were operating at 67% capacity utilization in Q1 and we are seeing close to about 40% to 50% jump in our volumes in Q4. So, we have already done capex to address that and this current capex can lead us to double the numbers what we have done on yearly basis, but that is not how the industry works, industry works on a seasonal basis. On seasonal basis, somewhere we will be touching about 85% capacity utilization this summer.
- Pritesh Chheda:** What maximum revenue based on the seasonality factor can this capacity of your support?
- Jasbir Singh:** It is very difficult to answer that way because it is subjective term on the model mix, what kind of model mix we will be delivering, so that is totally dependent on the customers, whether indoor goes more or outdoor goes more or window AC goes more or whether we are asked to put compressors in that or not so it is difficult to map up what kind of revenue we can do, on the volumes yes, we can definitely do close to about 4 million numbers or somewhere about 3.5 to 4 million depending on model mixes in North India and we have certain capacities western part of India which is underutilized right now and we are looking forward to put up additional capacities in the southern part of India because of the customer cluster.
- Pritesh Chheda:** Okay, so it is basically 3.5 million units versus two million that you are currently doing, and I think you did about two million, right?
- Jasbir Singh:** That also it depends.
- Pritesh Chheda:** My second and last question is when you said 40%, 50% volume growth in Q4 which means what kind of volume growth do you think you will finish in FY2019 on the AC side?
- Jasbir Singh:** Last year we did about 1.9 million units and we have given our guidance of 2.1 million for FY19 and that is what we are maintaining despite headwinds in the industry.
- Pritesh Chheda:** You have that visibility?



*Amber Enterprises India Limited  
February 08, 2019*

- Jasbir Singh:** Yes, we have that visibility.
- Pritesh Chheda:** On the component side, there was clear strategy and roadmap to enhance the components business, but I do see the components number slowing in despite the acquisition that you made for IL JIN and consolidation of it, so what has gone wrong?
- Jasbir Singh:** The results which we have floated is only on standalone basis and you will see the consolidated numbers in the annual results when they are declared and there on it will be always a consolidated number displayed. On standalone basis the contribution of components to our overall revenue has grown by 2.5% from 21% to 23.5% for 9MFY19. In Q3, we have grown by around 16% and non-AC components have also grown, but on a consolidated basis, if you see with an IL JIN and Ever put together, we should be somewhere near in a bracket of 34% to 35% on a consolidated basis of the total revenues.
- Moderator:** The next question is from the line of Paras Nagda from Enam Holdings. Please go ahead.
- Paras Nagda:** I wanted to understand what is the kind of price increase that we have taken at the end of December?
- Jasbir Singh:** I do not think so that we can disclose that part of thing, but it is in line to our commodity and currency both put together, because it has varied from customer-to-customer.
- Paras Nagda:** Can you share some nine months IL JIN and Ever sales in EBITDA please?
- Jasbir Singh:** In EBITDA margin terms IL JIN has grown from 3% to 5% and Ever has also grown by a percentage in EBITDA margin terms. On revenue, we are at Rs.231 Crores on nine months for IL JIN and PICL is Rs.86 Crores and Ever is Rs.43 Crores for Q3 because we have acquired Ever in Q3 only.
- Paras Nagda:** Lastly from the data that you have given it seems that the AC component revenue is not increasing, it has decreased tremendously, can you share some insights on what is happening in the AC component business?
- Jasbir Singh:** In AC components business, some of the clients have shifted to finished goods sourcing, so the AC component which we used to sell that has gone into captive, which we do not sell internally, so that is the reason why it has come down and on the non-AC components there is a growth, which you have seen, but on totality basis if you see we have grown both the components, AC and non-AC.



*Amber Enterprises India Limited  
February 08, 2019*

- Paras Nagda:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Keyur Pandya from ICICI Life Insurance. Please go ahead.
- Keyur Pandya:** Thank you. My question is sequentially if we see our revenue has increased from Rs.226 Crores to Rs.388 Crores versus that gross margin has reduced from 17.8% to 14% so despite increase in the revenues, our gross margin has reduced, such a high percentage of inflation we are witnessing?
- Jasbir Singh:** That is right because in nine months if you see there was steel price increase, there was copper price increase and there was forex increase, which was contributing, now all the three have been passed on to customers successfully some of them have been successfully passed on in end of December and most of them have started from first week of January.
- Keyur Pandya:** And the entire increase has been passed on?
- Jasbir Singh:** Yes, that is right.
- Keyur Pandya:** Thank you.
- Moderator:** Thank you. The next question is from the line of Abhishek Bose from DSP Mutual Fund. Please go ahead.
- Abhishek Bose:** Thanks for the opportunity Sir. I just wanted to understand one thing from P&L that you are sitting on fair amount of inventory at the end of third quarter, so that is what you are expecting in fourth quarter to get absorbed, is it?
- Jasbir Singh:** Generally, we built up inventories in the Q3 because of huge orders, which we have in Q4, that is inline to our previous strategies also, because Q4 in January itself we saw great numbers going up, so most of the inventories has been consumed.
- Abhishek Bose:** With extended winters now, do you see that as a risk, that OEMs might not take as much as that, and that might lead to fourth quarter also inventory getting built up and not getting absorbed into the system that you see as a risk given the current scenarios?
- Jasbir Singh:** We have added some customers that is giving us some growth and the products, which were added in last year Q4 is giving us a complete year portfolio. Despite brands may not, we are



*Amber Enterprises India Limited  
February 08, 2019*

getting orders and order book is very, very visible because normally all the brands are now again back on track as far as lifting is concerned from us.

**Abhishek Bose:** So, to that extent in that sense OEM general trade inventories are not that high, so even if the winter is extended you still assume, or you still are expecting that your inventory will get absorbed into the system is that fair assumption?

**Jasbir Singh:** Winters are affecting only the sales of North India, whereas the coastal belt and the western part, central part of India is already witnessing heat and the normal sales are going on and in winters also there is all weather AC, which has started picking up, which is quite popular these days and the numbers are flowing in better. So, overall we are quite bullish and none of our customers have reduced the order intake looking into the complete and second is I think the main import duty increase has also helped us because earlier many brands were importing, now they are buying that models from us, so that is also giving us a good growth.

**Abhishek Bose:** Sir about the south capacity that you mentioned that few of the OEMs are moving in there, so there the revenue opportunity for us will be the components part of it, are they setting up so how is the arrangement there? How are we looking at that opportunity space? We are looking more for components part of it or will be putting up more of the SKUs that we will be sending out, so how you looking at that south capacity?

**Jasbir Singh:** As we are complete solution providers, we will be putting up components as well as assembly part, but that will happen in phases, we are not going to put up a large capacity for finished goods there until unless the market build up, but yes as a strategic partners for supplies to brands we would love to be near to them and it will start from components, but simultaneously we can offer them semi knocked down condition kits as well as furnished goods also.

**Abhishek Bose:** So, these OEMs are putting up capacity in south to manufacture or to assemble their own unit, is that the idea there?

**Jasbir Singh:** Generally when any brand puts up a facility, they put up a assembly line and they need services assemblies as well as they need components on just in time basis to be supplied to them and some models because they will not be putting up ten lines, some of the models they would like to buy on a complete unit basis and in some model goes like minus compressor or minus motors or something like that, so as we are integrated solution provider, we offer additive manufacturing solutions, we would love to give same kind of solution what we have given them in north India.



*Amber Enterprises India Limited  
February 08, 2019*

- Moderator:** The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.
- Bhoomika Nair:** Just on take this forward on the capex that you are talking about in the south of India, what kind of capex will we need to incur and what kind of capacities are we planning?
- Jasbir Singh:** Right now we are just envisaging buying the land in next financial year and could be we start the building process in next financial year and next level of capex will come in the next to next financial year, so looking into that we will be keeping aside around Rs.30 Crores to Rs.35 Crores or may be Rs.40 Crores for land and building initially in the next financial year.
- Bhoomika Nair:** For an overall plant all spread over two to three years what will be the total capex required, while it will be spread over or two, three-year time?
- Jasbir Singh:** Yes, of course. So, we will have in phases in total of about Rs.90 Crores to Rs.95 Crores in that plant and spread into two to three years.
- Bhoomika Nair:** Sir my next question is we spoke about margins which got impacted, because of the higher input cost etc., now I am looking at a nine month period, there has been drop in margin for the reasons that you mention, but now I am looking it Q4 of last year, it is a fairly high base, almost close to 10%, so would that be fair to say that as year as a whole there will be a drop in margins or has the price increases that you have taken will be able to recoup some of the drop in margins in Q3?
- Jasbir Singh:** Partial recoup will happen in Q4 because Q4 is quite good number as compared to last year and partial I think and in terms of percentage there will be dropped because we have IL JIN and Ever also being consolidated on the annual basis, those two companies are lesser EBITDA companies, but on absolute number basis you will see a jump.
- Bhoomika Nair:** I am talking on the standalone basis Sir, there is no IL JIN or Ever, so I understand that will happen on a consolidated basis, but I am talking more about the standalone level?
- Jasbir Singh:** So standalone basis we will be able to partially recoup some of the margins in Q4.
- Bhoomika Nair:** Just if I may just squeeze in what kind of new customers have you added in the past quarters, which can drive volumes going forward both on a standalone has also in terms of IL JIN and Ever?



*Amber Enterprises India Limited  
February 08, 2019*

**Jasbir Singh:** In IL JIN and Ever we have already added customers like Hitachi, Carrier Midea and Voltas and on the components as well as assembly side, we have added Carrier Midea and Havells and we are just about to start with Flipkart.

**Moderator:** The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

**Manoj Gori:** Thanks for the opportunity Sir. I just wanted to understand today when we look, we have a fair bit of visibility on the fourth quarter of FY2019, so any visibility of commitments that you have seen for upcoming summer season between April and June?

**Jasbir Singh:** In January itself we are up by 55% nearly in terms of volumes and all customers are bullish on the coming season. Industry is expecting double-digit growth again and because we have added customers and because the imports are reducing, we see a very robust Q1 of the next year.

**Manoj Gori:** Ideally if you look at I think more number of client associations and with more preference for domestic manufacturers, I think there should be more increased commitment from the clientele side, so correct me if I am wrong, because I think people would be ceasing at this point of time, because obviously there would be some sales and people would be looking at domestic manufacturers and obviously with the capabilities that Amber has so obviously, this is just what I am trying to understand on the commitment side from your clients?

**Jasbir Singh:** Because of this import duty increase and also many brands have faced lot of inventories from imported side when the season hit them, so now they are shifting complete strategy to India and we happened to be one of the preferred supplier to them, so definitely there is lot of enquiries and there is lot of commitment solidification on the brand side with us and they are giving us good numbers for coming year.

**Manoj Gori:** If you look at the current capacity utilization like you are already saying like fourth quarter is going be robust one, so we would be running at around 100% utilization during the quarter?

**Jasbir Singh:** We will be ending not doing 100%, but close to about 85% to 90% in some of the months in quarter, 100%, it is very difficult to achieve in our business.

**Manoj Gori:** Right Sir.

**Moderator:** The next question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.



*Amber Enterprises India Limited  
February 08, 2019*

**Shrinidhi Karlekar:** Thanks for the opportunity. Sir I just wanted to better understand your pricing contract between you and brand that you saw, are these contract typically quarter-to-quarter or there is some sort of annual volume guidance that you get from brands and some part of it is built on that like in case where budgeted actual volumes are quite different than the budgeted volumes, how is the shortfall or the excess profit because of operating leverage pass onto the brand?

**Jasbir Singh:** Generally the visibility given by the customers are for about one year, but that is then broken into quarters and monthly basis, so we get one month fixed plan with a rolling plan of next two months, now rolling plan is of course subjective term there can be plus, minus percentage terms, but our general contracts on a quarterly basis, we reconcile currency commodity in total impact of it or if any price changes are there so that is passed on with the quarter lag.

**Shrinidhi Karlekar:** Okay, as a brand is growing faster than industry, how are typically arrangements where the favorable operating leverage do brands expect that the benefits of operating levels to get passed onto them or in most of the case like on annual basis, it is really the commodity costs and FX that gets passed on? I just wanted to understand how much you get to retain and how much needs to be passed on over a year on near basis?

**Jasbir Singh:** No, everything is passed on. There are some brands, which we do not need to followup where any currency or commodity exchanges at a quarter level is shifted into a new costing and that is floated, but there are some brands where there are followups required. In the followups required basis, there could be another lag of another 10 or 15 days for getting the increases.

**Shrinidhi Karlekar:** What I am trying to understand really is you earn some profit per ACs sold and for reason if you have a strong volume growth let us say 25%, 30%, so you have a better operating leverage, so in that case your profit per AC goes rapidly like it increases rapidly or large part of that benefit kind of you have to share with the brands that is really I wanted to profit per AC does that change materially due to operating?

**Jasbir Singh:** Our model is a basic aggregation of demand model, so whenever we aggregate the demand, if customer A wants only 35000 pieces and they are demanding only 35000 pieces next year or may be 40000, there is no rationale for price reduction, but yes if somebody is jumping from 35000 to 150000 there is a decent ask for a price reduction because of the operating leverage. Now it is just because that Amber is growing 25%, there is no rationale for brand to ask for price reduction.



*Amber Enterprises India Limited  
February 08, 2019*

- Moderator:** The next question is from the line of Darshika Khemka. Please go ahead.
- Amit:** Good evening. This is Amit. I just have a bookkeeping question. Nine-month period how much is the forex loss that we have versus last year nine month?
- Sudhir Goyal:** Rs.4.57 Crores is the loss for nine months, last time nine-month Rs. 5.5 crs gain we had.
- Amit:** Second point is broadly pertaining to, you have taken price hike and hopefully Q4 will reflect the impact of that, so that comes with a quarter lag, I just wanted to understand in terms of overall gross profit profile, because input cost change, so when we earn from our customers it is not on percentage basis, but rather on per unit basis, it is IDU or ODU in terms of lump sum, so any change in the BOM composition, will reflect a change on a percentage basis so keeping that functionality in mind, I just wanted to understand previous question also asked that the kind of margin profile that we will clock broadly for the year, do you think any part which is going to reflect in terms of weakness for fiscal 2019 because 9M is not a reflection, Q4 should absorb most of the margin and hence Q4 margin should be significantly reflecting that?
- Jasbir Singh:** We do not track our margins on percentage basis, because percentages can go up or down because of currency commodity issues, so on an absolute number basis per unit basis, we definitely track that and that is what we see to get increases or decreases respective of time, so yes Q4 as I have earlier intimated that we have got increases from the customers, so there should be a reflection of the absolute numbers coming back.
- Amit:** Thank you.
- Moderator:** Thank you. The next question is from the line of Vinod Chari from Dolat Capital. Please go ahead.
- Vinod Chari:** Thank you. Good evening. You just mentioned that sometimes back that Carrier Midea is also one of the new customers that you acquired, we are also hearing that Midea is setting up capacity and they have already acquired land in India and so do you think competition is emerging on the contract manufacturing space that is one and secondly with the Chinese entry like Midea and even possibly MI might enter India at some point with the AC as a product, do you see some kind of a disruption that they could create similar to what has happened in the early LED TV or the mobile segment?
- Jasbir Singh:** Whenever a customer comes and puts up a plant in India with the large investments like Midea is planning, that is a positive thing for us because their belief in Indian growth story



*Amber Enterprises India Limited  
February 08, 2019*

is very much there, where we are placed and secondly we have started supplying subassemblies to Carrier Midea and we were supplying components so this is a total integrated solutions, which we are giving to that customer and whenever they will put up, right now they are adding some lines for the refrigerator and washing machine and compressors. They already have a plant for manufacturing full air conditioners in Bawal North part of India where we were supplying some components earlier and now we are giving some subassembly, so whenever they will go to Pune we already have a plant in Pune from where we would love to cater to them.

**Vinod Chari:** And the price disruption, do you think the Chinese is capable of disrupting prices like they have done in other durable segments?

**Jasbir Singh:** Air conditioners are very different than mobile sector or TV sector, because in TVs technology obsolescence and also in mobile sector technology obsolescence is quite high and that is where the price disruptions have happened, but in air conditioners it is very difficult, because one it is already highly crowded in the brand space and there is already a cut throat competition within each brands going on and if I see we have Chinese player like Haier existing in Indian market from 15 years and even in Carrier Midea is existing in India from last 9 to 10 years, so they are gradually growing their market shares, but on this sector we are placed like having 12 plants in India giving diversified customer components business as well as semi-knocked down conditions and full AC, I do not think so there is going to be a price disruptions on that side, because the entry barriers are quite high, the component sectors which we are delivering right now, have at least two years of entry barrier in terms of reliability going through because the final product performance is dependent on the functionality of the components we are supplying, so all the companies they go through the complete reliability cycle then on the day one they do not give us 100% share of business, the share of business gradually grows, so there is about journey of travel for three to four years. I do not think so that we see that as a challenge. That is we have already crossed that milestone and Amber is today delivering number of solutions in air conditioners and washing machines and refrigerator space in terms of electronics, in terms of sheet metal, in terms of injection moulding, in terms of motors and heat exchangers space, so we are not seeing any Chinese companies putting up a plant like us, but any brand like MI, Carrier Midea or may be in future GREE comes that will be an opportunity for us to serve them.

**Vinod Chari:** Thank Sir.



*Amber Enterprises India Limited  
February 08, 2019*

**Moderator:** Thank you. The next question is from the line of Abhishek Bose from DSP Mutual Fund. Please go ahead.

**Abhishek Bose:** Thanks for the opportunity. Sir just one question without getting into quarterly on an annual basis, what is the steady state gross margin that you expect from your business given that now you are seeing raw material prices or so thing passed on, on a steady base, on an annual basis whatever volume that you expect, what are the gross margin that you expect?

**Jasbir Singh:** We are endeavoring to attempt a same numbers as we delivered last year, but on a consolidated basis because as I explained that IL JIN and Ever are lower EBITDA margin company, so on a percentage basis you may see little bit dip, but on a consolidated basis we should deliver the same numbers, we are in the same number.

**Abhishek Bose:** But on a standalone basis, you will maintain the gross margin that you have done last year?

**Jasbir Singh:** That is right.

**Abhishek Bose:** Okay, that is it from my side. Thank you so much.

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

**Aditya B:** You had mentioned that capacity utilization should touch around 85% in the peak quarter, so does that mean that with existing capacities we may able to undertake only 10% high revenues in order to be growing further we essentially need further capex to be done?

**Jasbir Singh:** Additional capacity in our business putting up a line does not cost so much, it is a capex of Rs.6 Crores to Rs.7 Crores to add additional capacity for assembly air conditioners in the line. In case there is a requirement of components business like heat exchangers or motors that would require a capex. Right now, we are quite good on the terms of space and buildings, but in case I mean we do not know right now if even touch 85% to 90% we are not anticipating huge capex in coming years.

**Aditya B:** The capacity constraint as of now you mean to say it is more on the assembly line side as opposed to on the component side?

**Jasbir Singh:** Yes, on the component side we have already done capex this year.

**Aditya B:** Sir you spoke about forex loss amount this year and forex gain that you had last year, what exactly the nature of this forex item?



*Amber Enterprises India Limited  
February 08, 2019*

- Sudhir Goyal:** Exact nature of the forex loss is the price at which we are buying and the price at which we are paying to the vendor, so there is always accounting period difference in payments, so I will give you a small example, let us assume, we have bought a material on October 1, when the rate was Rs.70 each dollar and we have made the payment to the vendor, the rate of Rs.74, Rs.4 is a forex difference or forex loss. It is a vice-versa situation like at the time of payment the rate is Rs.69, so Rs.1 is a forex gain.
- Aditya B:** So this is mainly in respect of creditors MTM for creditors at the time of payment basically?
- Sudhir Goyal:** It is both MTM and actual realized figures.
- Aditya B:** Okay and it is not possible to hedge it in any manner?
- Sudhir Goyal:** No, we can hedge it as well and we are doing hedging as well, but still whenever let us assume when we have bought the material, the rate was Rs.70 and immediately on the same day even if I am hedging, so there will be a hedging premium, my payment terms is 90 days, so there will be hedging premium for three months, let us assume that premium is Rs.1, Rs.1 will always be a loss.
- Aditya B:** Understood Sir. Thanks.
- Moderator:** Thank you. The next question is from the line of Sreekanth PVS from Spark Fund. Please go ahead.
- Ravi:** Sir, this is Ravi from Spark Capital. Sir I just wanted to know the Ever, PICL and IL JIN numbers once again revenue, EBIT margin and PAT margin for nine months?
- Jasbir Singh:** IL JIN we have done nine months Rs.231 Crores with EBIT margin of 5%. Ever, we have done Q3 Rs.43 Crores because we have bought this company in Q3 only right now this is at 3% EBITDA margins and in PICL we have done Rs.86 Crores and EBITDA margins are 7.5%.
- Ravi:** And PAT margins for these three, how much will it be Sir?
- Jasbir Singh:** In the percentage terms?
- Ravi:** Yes.



*Amber Enterprises India Limited  
February 08, 2019*

- Jasbir Singh:** We have a PAT of almost Rs.2.5 Crores in IL JIN and we have almost Rs.1 Crore in PICL and we have about Rs.50 lakhs in Ever.
- Ravi:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Ankur Sharma from Motilal Oswal Securities Limited. Please go ahead.
- Ankur Sharma:** Good evening and thanks for the opportunity. Two questions. One, if you could just breakdown your volumes for the quarter, this 423000 units into IDUs, ODU's, window which you normally share and a similar breakdown for the nine months as well?
- Jasbir Singh:** On the complete 11.54 numbers, which we have done? I am telling you nine months numbers, so IDU we have done 5.81, ODU we have 3.47 is ODU and 2.25 is window air conditioners.
- Moderator:** We do not have any one in the question queue. I would now hand the conference over to Mr. Jasbir Singh for closing comments.
- Jasbir Singh:** Thank you everyone for joining us. I hope we have been able to answer all your queries. In case you require any further details, you may please contact us or our Investor Relations Advisors, Strategic Growth Advisors/SGA. Thank you very much.
- Moderator:** Thank you. On behalf of Amber Enterprises India Limited we conclude this conference. Thank you for joining us. You may now disconnect your lines.