

Management Discussion and Analysis

INDIAN ECONOMY

A little more than 25 years ago, India embarked on a journey of economic liberalization. This propelled a growth wave unlike any other country's history. Since then, India's economic journey has been promising as it moved towards largest consumer market and USD 5 trillion GDP target.

During the year 2019-20, the Indian economy was performing moderately well while still recovering from the previous year's downfall. Sharp slowdowns in investments, rise in government spending, subdued private consumption and slowdown in manufacturing and construction sectors together contributed to a substantial weakening of the domestic demand. The industrial sector, as per Index of Industrial Production (IIP), is expected to remain subdued by 4% to 4.5%. Inflation increased to 4.1% in 2019-20 (April to December 2019) from 3.7% per cent in 2018-19 (April to December 2018). To revive consumption, the Government reduced both the corporate and the income tax rate. Further, the Government also eased the credit for the stressed real estate and NBFC sectors. Likewise, policy measures such as boosting FDIs and competitiveness, promoting access to finance for small enterprises and improving infrastructure will result in productivity gains while also boosting growth.

Various Government reforms and initiatives were underway when Covid-19 pandemic struck the nation. This left a severe dent on the economy as the situation worsened while eroding citizens' sentiments. The economic devastation rippling through the nation is forcing the Government to start easing restrictions even as the number of new cases climb. To control the situation and revive growth momentum of the economy, the Government had announced a ₹ 20 lakh crore stimulus. This infusion was targeted at various industry reforms and to boost market liquidity.

OUTLOOK

The Indian economy is expected to continue seeing headwinds like the lingering effect of credit weakness, rising inflation, and fiscal deficit in the second half of the year. However, a gradual increase in growth is also projected, reflecting a modest rebound in domestic demand. This growth would be supported by normalising food prices, easier financial conditions, and insulation of fiscal stimulus package by the Government to supplement monetary policy. Further, robust consumption, continued implementation of structural and financial reforms and efforts to reduce public debt are also expected to support the economy's growth.

INDUSTRY OVERVIEW

Room Air Conditioners (RACs)

The Indian room air conditioners market was estimated at 6.8 million units in 2020. Room air conditioner market in India is highly competitive with the presence of domestic, international, and unorganized market participants. This market is segregated into two segments wherein the split room air conditioner segment generates the highest market share.

On an average, the summer temperature in India remains above 24°C.

The Indian room air conditioner market size is projected to advance at a CAGR of 13-15% during 2019-25. This growth anticipation rides the back of extreme climatic conditions, rising disposable income, better quality of life, demand for comfort cooling, urbanisation, decreasing replacement cycle and growing construction activities, in both commercial and residential sectors.

Indian AC Market - Over the years

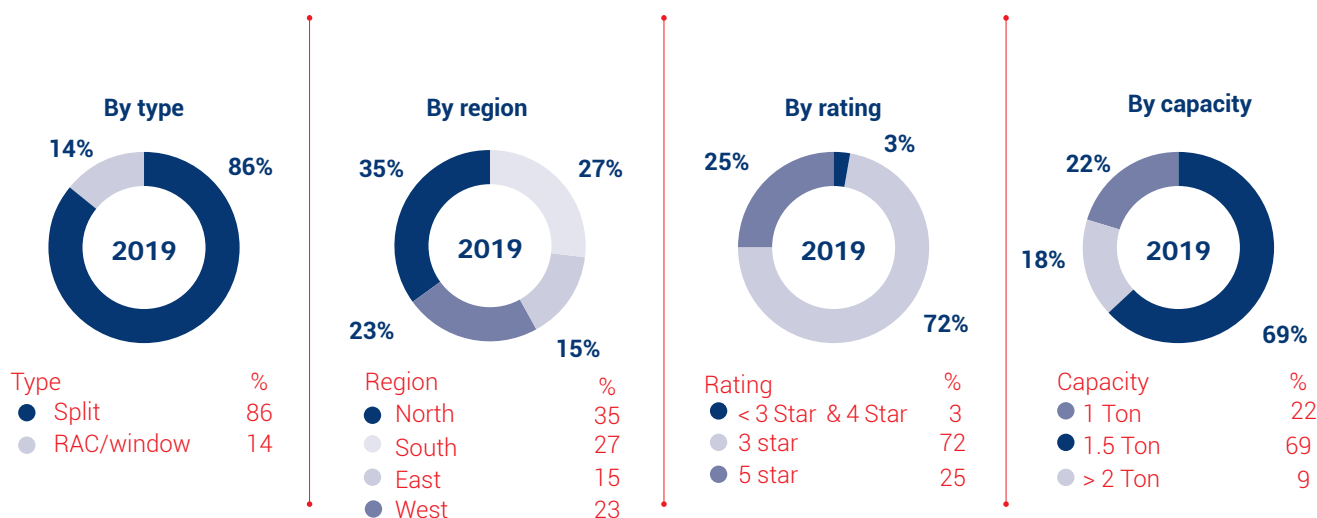
By quantity (Million nos.)



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Indian AC market Total- 6.8 million units



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COVID-19 IMPACT

As the Covid-19 pandemic continues to paralyze the economy, the consumer durable industry finds itself in a precarious position. Sales lost in the three-month period of March–May are pegged at approximately ₹ 20,000 crore. The AC segment is headed towards a total washout as peak summer sales from mid-march to mid-june are being impacted.

With the partial lifting of the lockdown in mid-May, some manufacturers faced several hiccups recommencing their production. Inventories were piled up in warehouses while the entire retail channel was fully stocked up, since March. Many struggled with shortage of labour as workers had either migrated to their respective villages or were living in red zones, contrary to the manufacturers' facilities in an orange or green zone. An increase in component and panel import prices, accompanied by a strong dollar as a cost push, and an unreliable supply chain, caused situations to move out of control. Unrealistic guidelines on social distancing, with additional expense of transport, sanitation, and insurance, added to the manufacturing woes.

BUSINESS OVERVIEW

About Amber

Incorporated in 1990, Amber started its operation in 1992. The Company designs and manufactures air conditioners and components for leading consumer durable brands. Amber's diversified product portfolio includes RACs, RAC & Non RAC components and air conditioning solutions for railways, metros, defence, and bus and commercial segment. The Company has 15 manufacturing facilities across 6 states in India, strategically located close to

customers, enabling faster turnaround. The Company finds its expertise in components like heat exchangers, sheet metal components, injection moulding components, copper tubing, motors, and inverter PCB board. The Company focuses on backward integration and strengthening its position in air conditioners market. Thereby, providing quality products within a stipulated time. During 2019, Amber strategically invested in Sidwal Refrigeration Industries Private Limited ('Sidwal') to gain access to knowledge, skills and expertise of manufacturing HVACs for railways, metros and buses. The action will also provide more comprehensive solutions such as CAC, AHU, FCU to current set of customers. It will further allow Amber to explore spectrum of opportunities across sectors like railways, metros, defence and telecom, among others.

Room Air Conditioners

Contributing 61% to revenue, Amber's RAC segment includes manufacturing complete range of RACs including window air conditioners (WACs), indoor units (IDUs) and outdoor units (ODUs) of split air conditioners (SACs). The specifications of these RACs range from 1 ton to 2 ton, across energy ratings and types of refrigerant. The Company also manufactures Inverter RACs ranging from 1 ton to 2 ton. Amber also manufactures functional components of RACs like heat exchangers, motors & multi-flow condensers, and inverter PCB boards. It also manufactures other RAC components like sheet metal components, copper tubing, and injection moulding components.

RAC segment contributed ₹ 2,425 Crore in 2019-20, up 39% from ₹ 1,741 Crore in 2018-19.

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Components

Amber manufactures components for other consumer durables and automobiles like case liners for refrigerators, plastic extrusion sheets for consumer durables and automobile industry, sheet metal components for microwave, washing machine tub assemblies, and for automobiles and metal ceiling industries. The Company constantly tries innovating its products to diversify into related business verticals.

Mobility and Other Air Conditioning Applications

Mobility and other Air Conditioning Applications vertical of Amber's business caters diverse clients ranging from the Indian railways to Metro Rail and Defence and Communication. Pioneering the all-indigenous development of Roof Mounted Modular Compact Air Conditioner for Rail Coaches in 1991, the Company has successfully developed and delivered 16,000 AC Units duly tested and approved by Research Design & Standards Organization (RDSO), Ministry of Railways, Government of India. These AC units were for higher speed trains like Shatabdi Express, Rajdhani Express for Indian Railways as well as Gatimaan Express & Tejas Express Trains.

FINANCIAL PERFORMANCE

On a consolidated basis, total revenue stood at ₹ 3,963 Crore in FY 2019-20 as compared to ₹ 2,752 Crore in FY 2018-19. Further, the Company achieved Operating EBITDA of ₹ 326 Crore in FY 20 as compared to ₹ 213 Crore in FY 2018-19. Net profit stood at ₹ 164 Crore for FY 20.

Particulars	FY 2019-20	FY 2018-19
Debtors turnover	4.64	3.50
Interest coverage ratio	5.56	6.53
Current ratio	1.20	1.29
Net debt equity ratio	0.21	0.20
Operating EBITDA margin (%)	8.23	7.73
Net profit margin (%)	4.14	3.44

STRENGTHS

Established market position and diversified clientele

The Group has a strong market position in the AC segment which the Company caters to Voltas, Panasonic, LG, Daikin, Hitachi, Whirlpool, Godrej, Samsung, Toshiba, and Blue Star are the leading brands which the Company caters to.

Portfolio of components

The Company product offerings include both air conditioners and non-air conditioner products. Along with focusing on our core business, we also emphasize on our component vertical, stimulating our business.

Addition of new customers

New customer additions and increased demand by existing ones has led to substantial increase in volumes of room air conditioners and other products.

Backward integration

Amber has the capacity to offer product development and manufacturing solutions starting right from designing, tooling, and validating to final assembling and testing. Most of the operations are backward-integrated and the processes are carried out in-house. The Company has also acquired PICL, IL JIN and EVER for serving the purpose. Backward integration gives flexibility to control manufacturing processes and reduce dependency on external suppliers.

OPPORTUNITIES AND THREATS

Opportunities

The Company's belief in developing innovative and quality products has made Amber a preferred industry supplier. It continuously tries customising its products as per customer need and preference. This customer-centric approach has translated into a strong market position for the Company.

Room Air Conditioner

- Huge untapped market with substantially lower penetration of consumer appliances as compared to other countries
- Increasing work from home culture will also contribute to rising demand
- Increasing electrification in rural areas aiding the demand for room air conditioners
- Air humidity and increasing urbanization leading to a rising demand
- Due to current pandemic, companies across world are searching for a China +1 base, this will push demand for Indian players
- More energy efficient Inverter ACs with 3-5 years' warranty leading to an increased demand by consumer

HVAC Segment

- Rising number of offices and other commercial buildings, and hospitality sector's expansion will drive the HVAC segment's demand
- Increased Government investments towards metro stations and airports have increased the adoption of HVAC systems

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Threats

Losing customers/non-acceptance of products launched:

The Company's scope of business mainly comprises B2B customers. The production schedules vary across multiple product SKUs and categories, eventually resulting in concentration risk in each product division. Loss of any of the customers along with non-acceptance of the products launched can impact the Company's growth prospects.

Volatility in raw material prices: Global sourcing of components and critical raw materials for manufacturing processes is done regularly. Constant volatility in commodity prices and currency can impact the Company's margins.

Advancement in technologies: The Company's business is affected with rapid technology change. Adoption of dynamic changes in technology is crucial to remain competitive.

RISKS AND CONCERN

We have an enforced risk management system in place to address the increasingly complex risks. We have a diverse risk management system that conducts risk analysis of ongoing economic and social changes and takes preventive measures accordingly. We conduct business across range of products and use sophisticated technologies to carry out operations. The following risks are attributable to our business.

Major dependency on customers concentration: The Company's major revenue comes from its top ten customers. Thus, discontinuity of purchases from any of these customers or any other problem faced by them would lead to the Company's revenue reduction.

Mitigation: To reduce this risk, the Company has diversified into various products. Moreover, a regular quality control check helps to consistently maintain high products' standards.

Seasonality business: The Company's AC and AC components businesses are highly dependent on summer. Its demand goes down during monsoon and winter. Changes in weather conditions like unusually heavy monsoons or cooler summers can impact the Company's margins.

Mitigation: Since the business is seasonal, the Company has diversified in different segments like manufacturing of commercial Air conditioners and industrial refrigeration.

Further, the Company is also trying to focus on non-air conditioner components during off-season. It is trying to expand its export market to reduce seasonal nature of the business.

Forex risk: The Company imports its raw material from multiple geographies. Thus, any adverse impact in the currency fluctuation can affect profitability.

Mitigation: The Company's strong backward integration aids in reducing the final product's cost. The Company procures components from domestic market which also helps mitigating forex risk. Systematic and meticulous hedging policies further help monitor the exposure to currency volatility while managing risks proactively.

Consumer demand pattern risk: Any change in end-user's preferences, behaviour or usage pattern could adversely impact the Company's growth prospects.

Mitigation: The Company always stays updated on the market dynamics and technological advancements. Thereby staying updated and ahead in industry.

Client business model risk: The Company's primary clients are OEM/ODM players, who outsource some of the products manufacturing or process to the Company to reduce their costs and achieve scale. Change in their location of business or business model can adversely impact the Company's business.

Mitigation: The Company's team always stays updated about clients' requirements and business activities. Thus, realigning its plans with clients' business plans.

Operational risk: It is vital for the Company to ensure high-operational efficiency to ensure competitiveness.

Mitigation: The management team closely handles the internal processes and ensures optimisation in energy conservation, technology absorption and capital efficiencies. The Company's internal control systems are designed to adhere to any size and nature of business complexity.

Geopolitical: The Company's raw materials includes a substantial amount of imports. Any geopolitical tension between India and other countries can affect Company's performance.

Mitigation: To reduce this risk, the Company has initiated the process of sourcing of its components from the domestic market in lines with localisation. Further the Company also has backwardly integrated itself for critical components.

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HUMAN RESOURCE

Amber truly believes its team and people to be its greatest assets. The organisation empowers and motivates its people. The Company's core focus is to provide growth and nurture all its employees, encouraging them to perform their best. For this, employees training, and skill development is very important. Additionally, induction training, and regular on-the-job-related training is also provided to help employees improve their duties' performance continually.

The Company remains focused on strengthening its people policies and internal processes where employees seek continual improvement, greater accountability, and responsibility, and excel in their key result areas. Collaboration, connectivity, and productivity-enhancing technology initiatives are the Company's key drivers behind building careers for its people.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

For ensuring adherence to and adequacy of all Internal Control Systems, the Company appoints an external firm of auditors. These auditors evaluate the Company's efficacy and consider their suggestions on improvements. Their findings are reviewed consistently by the Audit Committee constituted by the Board of Directors. A Whistle Blower Policy is also implemented to further ensure vigilance and guard against any inopportune development.

CAUTIONARY STATEMENT

The Statement in this Management Discussion and Analysis Report describing the Company's objectives, projections, estimates, expectations, or predictions may be 'forward looking statements' within the meaning of applicable laws and regulations. Actual results might differ substantially or materially from those expressed or implied. Important developments that could affect the Company's operations include demand-supply conditions, changes in Government and international regulations, tax regimes, economic developments within and outside India and other factors such as litigation and labour relations.