Amber Enterprises

Operator: Good day, ladies and gentlemen. Good day and welcome to the conference call of Amber Enterprises India Limited to discuss the manufacturing collaboration with Oppo Mobiles India Private Limited. 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 star and then zero on your touchtone phone. I now hand the conference over to Mr. Jasbir Singh, Executive Chairman and CEO and Whole-time Director of Amber Enterprises India Limited. Thank you and over to you, sir.

Management: Good morning and thank you all for joining the call. On the call today, I am joined by Mr. Daljit Singh, our Managing Director, Mr. Sudhir Goyal, our Group CFO, and Mr. Ravi Harbada, our Investor Relations Head. I trust you have had the opportunity to review our exchange filing. Amber Group has entered into a manufacturing collaboration agreement with Oppo Mobiles India Private Limited executed on June 18. Oppo's decision to partner with Amber reflects the confidence that a global brand of significant standing has placed in our manufacturing capabilities, quality infrastructure, ability to deliver at scale, and operational consistency.

It marks our entry into India's mobile phone market, the second largest mobile phone market in the world, at a particularly compelling juncture as the Government of India continues to drive domestic value addition and import substitution with renewed intent and policy momentum. This is also fully consistent with our stated strategy of maintaining the right balance between high-margin value-added businesses and asset-light high-volume low-margin businesses. This collaboration meaningfully diversifies our revenue profile and importantly reduces the seasonal concentration inherent in our room air conditioner business.

Let me walk you through the key operational parameters of this arrangement. On the scope, this agreement covers three brands which are Oppo, OnePlus, and Realme. On the facility side, the manufacturing will be carried out at an existing facility under a sublease arrangement with Oppo India. This structure does not require any Press Note 3 approval. On the capital outlay, consistent with the asset-light nature of this collaboration, capex requirements are very, very minimal. On the timeline, we expect trial production to commence in Q4 FY25 with commercial production to start by Q1 FY26.

On the scale side, we expect to begin with around 8 million units in year one, followed by a calibrated phase-wise ramp-up. If everything goes as scheduled, we expect to touch the volumes of around 13-15 million in the second year of operations. On the value addition side, we will commence with assembly first and SMT operations, with a clear roadmap to progressively deepen our value addition into components such as high-density interconnect printed circuit boards and then gradually increase local value addition over the next 5 years.

On the margin side, returns will be in line with the industry standards at the commencement, with margin improvement anticipated as operating scale and local value addition increases. Regarding capital efficiency, the business is structurally low on working capital intensity and asset-light in character, both attributes that are conducive to healthy and improving returns on capital employed. On the path ahead, we view this as the beginning of a longer relationship with Oppo. Together, we will explore additional avenues of collaboration aligned with the Government of India's vision of a self-reliant India, focusing on increasing local value addition.

This milestone marks a significant inflection point in Amber's evolution. We began as a predominantly room air conditioner focused company, we have since expanded meaningfully into electronics and railways, and today, we enter the mobile phone segment, one of the highest volume consumer electronics categories in the world. We are energized by the opportunities that this next phase of our growth journey presents for Amber, for our shareholders, and for our partnership with Oppo India. Now let me hand over to the operator to open for Q&A please.

Operator: Thank you very much. We will now begin with the question and answer session. Anyone who wishes to ask a question may press star and then one on their touchtone phone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Participants are requested to keep the questions to today's discussion itself and we request all the participants to limit their questions to two each per participant and can rejoin the queue for any further follow-up questions. Your first question comes from the line of Sumit Sinha with Macquarie. Please go ahead.

Sumit Sinha - Macquarie: Yes, sir, good morning. Thank you. A couple of questions here. First, if you can just talk about the economics on a per-unit basis. Are we talking about you recognizing revenue on a gross basis like an ODM, but since this is a manufacturing relationship, you will probably recognize revenues on the value addition only? If you can confirm that. Second, how does Amber develop the expertise for this? As you mentioned, you are going to sublease the facility from Oppo, so I believe you will be using their expertise there, their people and so on, and who pays for the opex? Those were the first two questions. Thank you.

Management: Thanks, Sumit. First, I will answer your second question on the capability side. Currently, at Iljin, we are already manufacturing 9-10 million smartwatches every year. We do close to about 50 million printed circuit board assemblies for various applications. On the bigger boxes side, which is air conditioners, we do more than 5.5 million boxes every year. So, the scale side and assembly side is not a problem at all for the group. Since we will be subleasing the existing Oppo facility, we do not anticipate any issues in going through the learning curve. We have kept the first 3 months as the learning curve period. That is why we want to go slow in Q4 of this current year. Commercial production will begin from Q1 of the next year.

On the commercial arrangement side, it all depends on Oppo India whether they want to go for the sale-purchase agreement or they want to go for a complete job work basis. It will completely depend on them, but the margins are in line with the industry if we consider it minus the PLI part of it. Normally, the industry is operating at 1.5-2% of EBITDA level depending on which model you make. If it is a higher-end model, the EBITDA will be about 1.5-1.7%. If it is a lower-end model, the percentages will increase. The arrangement is on the bottom-line side, basically not on the top-line side. We have flexibility on the top-line side.

Sumit Sinha - Macquarie: Got it. I have other questions, but I will join the queue. Thank you.

Operator: Thank you. The next question comes from the line of Santosh Hishadri with Avendus Spark. Please go ahead.

Santosh Hishadri – Avendus Spark: Hi, sir, good morning. Thanks for taking my questions. My first question is on the PLI opportunity. Since the potential framework possibly focuses on value addition rather than pure assembly, what are the focus areas of Amber in backward integration apart from the HDI interconnect facility?

Management: Well, it is a very early statement to make right now because we do not even have the draft of the second PLI which is being talked about. I will rather refrain from commenting on the structure of the PLI which is coming up until there is some kind of a draft notification or public document available on that. It is being speculated that it involves local value addition, but in case that happens, we are already doing SMT in-house and we will have printed circuit boards with us. Of course, the arrangement is such that we can go for higher value addition and Oppo India will help us to bring more suppliers to India for other components going forward.

Santosh Hishadri – Avendus Spark: Thank you, sir. My second question is on the potential of working with other brands. Since Oppo is part of this BBK Group, does this open doors for working with other brands of the BBK Group as well?

Management: Yes, so it covers all three brands: Realme, Oppo, and OnePlus.

Santosh Hishadri – Avendus Spark: And any possibility of working with Vivo?

Management: With Vivo, we do not have any arrangement at the moment. This is our first endeavor to get into mobile phone manufacturing. I think we will go slow and take baby steps. We have a good task of touching 8-9 million phones in the very first year, taking this number to 14-15 million next year. Once that is achieved, then we will think about adding any other brands.

Santosh Hishadri – Avendus Spark: Thank you, sir. I will come back in the queue.

Operator: Thank you. The next question comes from the line of Dhruv Jain with Ambit Capital. Please go ahead.

Dhruv Jain – Ambit Capital: Thanks a lot for the opportunity, sir. My first question is that to do this arrangement, did you have to look at some other technical ODM JVs that we have seen in the space over the last 2 or 3 years, like Longcheer or Wingtech? Or do you think that would not be necessary and you will work closely with Oppo at this point?

Management: Dhruv, at this moment, we are starting with Oppo India and we do not have an association right now with Longcheer and others. But as Oppo is deeply engraved and embedded in the whole ecosystem of mobile phones and other products, this arrangement is a long-term arrangement and we are going to build upon this relationship as we move forward.

Dhruv Jain – Ambit Capital: My second question is on scalability. If you look at the scalability of the phone market, the market has not grown over the last 4 or 5 years. I know that it is a larger opportunity, but in the past we have seen that Amber looks at categories which offer a lot of growth. I just want your sense as to what is the scalability beyond Oppo here, because to hit your target addressable market possibly in the next 2 years.

Management: Dhruv, there are two ways to look at it. One, yes, you are right that on the volume side, the domestic number of phones getting sold in the country are almost the same. But as the average selling price is going up every year, people are moving towards high-end phones, and that is what is driving the replacement market. What we see at Amber is the opportunity in local value addition. The industry is at just 10-12% local value addition right now. Everybody is doing only assembly, and some are doing assembly plus SMT.

We will start with assembly and SMT and in year two, our HDI plant will go operational. That is our first foray, and then we can take this local value addition to 35-40% in the next 5-6 years, depending on which category we add. That is where the endless addressable market comes in.

Dhruv Jain – Ambit Capital: Got it, sir. Thanks a lot and all the best.

Operator: Thank you. The next question comes from the line of Praveen Sahay with PL Capital. Please go ahead.

Praveen Sahay – PL Capital: Hi. Thank you for the opportunity. First, as you are targeting nearly 20% of Oppo India's volume, around 8-9 million, and you are talking about subleasing their facility, how big is the manufacturing capacity for the facility you are leasing? Secondly, they already have partnerships with other EMS players, so where are you placing yourself for forward volume growth or backward integration in this collaboration?

Management: We are not disturbing their existing ecosystem with other manufacturers. As far as catering to 20%, 25%, or 30% of Oppo's volume is concerned, they have a very large compound where their manufacturing happens. The lines are dedicated industrial premises made in a way where they can easily be subleased with an exclusivity arrangement. That is what we are going to do at the moment.

Praveen Sahay – PL Capital: Okay. Next, regarding Ascent, where you had acquired the remaining stake and the Managing Director who was the owner earlier has resigned. Who is now going to head the entire PCB manufacturing for you? Can you give some projection forward on how you are looking at it, because now you are a majority holder and you are doing a lot of capex in that particular entity.

Management: We previously acquired 60% and now we own 98.5%. Because of the arrangement in the agreement, Mr. Manjunath had to step down because he is no longer a shareholder in Ascent, but we continue to have a good relationship with him. The whole PCB division will be headed by Mr. Santosh. He has 25 years of experience in the printed circuit board category. He was earlier heading AT&S, which was previously the largest PCB company. Now Amber has become the largest PCB company with Ascent and Shogini in our fold. He has already been with us for the last year.

Praveen Sahay – PL Capital: Okay. Thank you, sir. I have more questions, I will join the queue.

Operator: Thank you. Ladies and gentlemen, we request all the participants to restrict questions to current business developments. The next question comes from the line of Indrajit He with CLSA. Please go ahead.

Indrajit He – CLSA: Hi, sir. First of all, congratulations on embarking on a new business journey and acquisition. A couple of questions. First, on how the organization is structured, will it be part of Iljin or a different entity altogether?

Management: Indrajit, right now there is a lot of flexibility, but as we move ahead, we will provide clarity on whether it will come directly under Amber or go into Iljin. At the moment, because we are doing smartwatches, hearables, and wearables, it looks like it will be there, but we cannot define it right now because we have other shareholders in the Iljin cap table. We will let you know once the decision is taken before the commencement of operations.

Indrajit He – CLSA: That is helpful. Second is on management bandwidth. Would you have a different team and a different CEO heading that business, or would the head of the wearable and hearable team be heading it?

Management: Certainly, this requires a very dedicated effort and there will be senior management dedicated to this sector only. Assembly is something we are starting with, but our long-term goal is to penetrate into the component business of the mobile phone. That is where the growth and the margins are.

Indrajit He – CLSA: Sure. I have no more questions, I will come back in the queue.

Operator: Thank you. The next question comes from the line of Aniruddha Joshi with ICICI. Please go ahead.

Aniruddha Joshi – ICICI: Yeah, thanks. Congratulations team for the acquisition. Sir, Amber has always worked with high-margin products. This is probably among the first large products which are relatively very low margin. How will the working capital requirements be, and what is the ROCE that can be generated on this business? If you can share more details on the financial aspects of this transaction.

Management: You are right. This is a low-margin business but a very high-volume business, similar to what we do in smartwatches. We stepped into smartwatches about 4 years ago and now we have reached 10 million watches in a year. We see a very good ROCE. Generally, these are very ROCE accretive. If you take this on a standalone basis, the ROCE will be more than 30-35%. Of course, it will add up to the ROCE of the overall Amber profile.

If we talk about the component side where our goal is, we work in a range of 15-16% on PCBs. If you add other components in the mobile phone ecosystem, there are decent margins in that whole component ecosystem and we will keep adding to it. I would take you back to what we did in air conditioners. 25 years ago when we started, we were just providing sheet metal, then we started assembling. Every 3 years, we added one component as backward integration. First we added heat exchangers, then 3 years later we added injection molding, then we acquired a motor company, then an inverter PCB board company, then we entered fans and blowers, and we eventually touched 70% of the bill of materials. Our objective is to go gradually and we will continue to balance the volume and the value play. We are starting with a low-margin, high-volume business, but over 5-6 years, we will keep adding components to increase our margins.

Aniruddha Joshi – ICICI: Okay. And the working capital requirement?

Management: It is a very minimal working capital requirement. Normally this sector operates on a net working capital cycle of almost 4-5 days, with a maximum of 10 days.

Aniruddha Joshi – ICICI: Okay, sir. This is very helpful. Thanks.

Operator: Thank you. The next question comes from the line of Mr. Achal Lohade with Nuvama Wealth Management Limited. Please go ahead.

Achal Lohade – Nuvama Wealth Management Limited: Thank you for the opportunity. I think the questions were broadly answered. Just one clarification regarding the investment. If everything goes well, what kind of investment are we looking at? Is it multiples of 1,000 crores or a few hundred crores eventually, say in 4-5 years, assuming a perfect scenario?

Management: To start with on assembly and SMT, we are not putting in any capex. It will be minimal, below 50 crores to start with. Once we touch 14-15 million units, then we will add the component side. On the component side, it depends on which category of components you want to get into. Whether you want to get into camera modules, displays, metal casings, or mechanicals, we are already putting up capex in printed circuit boards. There will be no duplication of capex. At the moment, very minimal capex will be required.

Achal Lohade – Nuvama Wealth Management Limited: Got it. And you mentioned we haven't decided yet which segment it will be part of and whether we will recognize revenue on a gross or job work basis. Have I understood that correctly?

Management: Yes, that is right, because it will depend on the Oppo India team. Some models may come on the gross side and some on the other, but the bottom line on the absolute numbers will remain intact.

Achal Lohade – Nuvama Wealth Management Limited: Absolute. Thank you so much for the clarification.

Operator: Thank you. The next question comes from the line of Aditya with Investec. Please go ahead.

Aditya – Investec: Hi. Good morning, Jasbir. Congratulations. My first question is on the ramp-up that you spoke about. In FY26 as we start commercial production, should we anticipate 8 million units in that year, or is it more like 8-10 million units?

Management: 8-9 million, but you can consider 8 million units on the conservative side.

Aditya – Investec: And by FY27 or FY28, we should be hitting 14-15 million units?

Management: That is right. Maybe more, but we are taking a conservative number of about 14-15 million.

Aditya – Investec: Understood. And you mentioned that existing relationships of Oppo will not be changed. Does that mean that all the EMS companies Oppo is currently working with will continue to work with them, but possibly there will be no ramp-up in those relationships?

Management: We have requested them not to give other people's business to us. That is not Amber's model. I believe it will continue in the form it is happening right now. However, because we are getting more into the component side on a long-term basis, we may end up supplying them components.

Aditya - Investec: Understood. You mentioned that besides PCBs, which you will be doing straight away, you will be focusing on domestic value addition. Is that likely to be done in-house for things like camera modules, chargers, or display modules, or will we be open to having other suppliers?

Management: Aditya, to begin with, we do not want to open up too many fronts because this is a new product category for us. For the first 2 years, we will focus on SMT and assembly. From the second year onwards, we will add HDI, and after the third year, we will add another component. We still have to create a roadmap, but our objective is to bring the value addition to about 30-35% over the next 5-6 years. That roadmap is still to be formalized.

Aditya - Investec: Understood, sir. That is a very inspiring development. Congratulations.

Management: Thank you, Aditya.

Operator: Thank you. Ladies and gentlemen, due to time constraints, this was the last question for today. I now hand the conference over to Mr. Jasbir Singh for closing remarks.

Management: Thank you everyone for joining the call. I think we have been able to answer all your queries. In case you still have any further information or query, please contact our head of IR, Ravi or Rohit, and Strategic Growth Advisors, SGA, our investor relations advisors. Thank you and have a great day ahead.

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