

## Amber Enterprises India Ltd

**Amber Enterprises India Ltd. (Amber) is the market leader in the room air conditioner (RAC) outsourced manufacturing space in India with a market share of 55.4%. It is a one-stop solutions provider for the major brands in the RAC industry and currently serves eight out of the ten top RAC brands in India including Panasonic, LG, Daikin, Hitachi, Whirlpool, Voltas, Blue Star and Godrej.**

**Market leadership driven by integration and R&D:** Amber commands 19% market share in Indian RAC manufacturing through its 11 manufacturing facilities strategically located across India. In a short span of nine years, it has evolved from being original equipment manufacturing (OEM) to high-margin Original Design Manufacturing (ODM) in RACs mainly led by high degree of backward integration and strong R&D capabilities.

**Favorable industry trends:** Amber is in a sweet spot, as the RAC industry is growing at 12%+CAGR. In the RAC industry, the share of ODM is expected to grow by 25% CAGR to reach 56% of the RAC market by 2022 (from current 34%). These factors favor Amber owing to its focus on ODM. Further, the product approval cycle goes beyond 2-3 years creating a moat for Amber to keep the competition under check.

**Margin expansion and debt reduction:** The Company has been able to improve its margins to 9% in H1FY18 led by higher capacity utilization and robust demand in RACs. Further, current utilization at sub 50% is likely to grow in future, providing operating leverage and thereby enhance margins. Moreover, Amber has been generating positive cash flow from operations over the last 5 years and will have negligible debt post IPO. The company is not planning to undertake any major capex in the next 2-3 years.

**Outlook & Valuation:** At the upper end of the price band, the P/E multiple works out to be 80x (pre issue equity base) of FY17 EPS which prima-facie looks on the higher side. However, considering future earnings growth trajectory to be very robust (FY19 earnings expected to be 4x of FY17 earnings); we feel that the stock would trade at ~22-25x (post issue equity base) on our rough EPS for FY2020 which looks very attractive. Its closest peer - Dixon Technologies is trading at higher valuation of 30x FY20 earnings. **We recommend 'SUBSCRIBE' on the issue for a mid-to-long term period.**

### Key Financial

Y/E March (₹ cr)	FY14	FY15	FY16	FY17
<b>Net Sales</b>	973	1,230	1,089	1,644
% chg	11	26	-11	51
<b>Net Profit</b>	21	28	24	28
% chg	13	33	-14	16
EBITDA (%)	7.7	8.3	10.4	7.8
<b>EPS (Rs)*</b>	8.1	10.8	9.3	10.8
P/E (x)	106.0	79.9	92.4	79.8
P/BV (x)	10.6	9.3	8.5	6.6
RoE (%)	10.0	11.7	9.2	8.3
RoCE (%)	12.1	14.1	14.1	13.1
EV/EBITDA	38.5	28.7	26.2	23.2
EV/Sales	3.0	2.4	2.7	1.8

Source: RHP, Angel Research; Note: \*Ratios based on pre-issue outstanding shares and at upper end of the price band

## SUBSCRIBE

Issue Open: January 17, 2018

Issue Close: January 19, 2018

### Issue Details

Face Value: ₹ 10

Present Eq. Paid up Capital: ₹ 29.5cr

Offer for Sale: \*0.145cr shares

Fresh issue: \*0.55cr shares

Post Eq. Paid up Capital: \*\* 31.4cr

Issue size (amount): \*\* 600 cr

Price Band: ₹ 855-859

Lot Size: 17 shares and in multiple thereafter

Post-issue implied mkt. cap: \*\* 2701 cr

Promoters holding Pre-Issue: 59%

Promoters holding Post-Issue: 44%

\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post-Issue Shareholding Pattern

Promoters	44%
Others	56%

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## Company background

The company was incorporated as Amber Enterprises India Private Limited on April 2, 1990 at Jalandhar, Punjab, as a private limited company under the Companies Act, 1956. It was converted to a public limited company pursuant to a special resolution passed by its shareholders on September 20, 2017. From a single factory in Rajpura, Punjab, that commenced operations in 1994, it has grown to 11 manufacturing facilities across seven locations in India. Its manufacturing facilities have a high degree of backward integration and are strategically located in proximity to its customers' facilities. It has also seen three rounds of private capital infusion (IFCI Venture Capital Funds Limited, Reliance Alternative Investments Fund – Private Equity Scheme-I through Fairwinds Trustees Services Private Limited and ADV Opportunities Fund LLP through their investment entity Ascent).

### Product portfolio:

- **RAC:** It designs and manufactures complete RAC including window air conditioners (WAC), indoor units (IDU) and outdoor units (ODU) of split air conditioners (SAC) with specifications ranging from 0.75 ton to 2 ton, across energy ratings and types of refrigerants. It also designs and manufactures inverter RAC ranging from 1 ton to 2 ton.
- **RAC Components:** It manufactures critical and reliability functional components of RACs such as heat exchangers, motors and multi-flow condensers. It manufactures other RAC components such as sheet metal components, copper tubing and injection molding components.
- **Other Components:** It manufactures components for other consumer durables and automobiles such as case liners for refrigerator, 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.

## Company timeline

Year	Particulars
1990	Incorporated as a private limited company.
1994	The first factory at Rajpura was established
2003-04	Started Dehradun Plant for RAC manufacturing for LG
2004	Dehradun Factory Unit - 4 established
2005-06	Started manufacturing microwave ovens for LG
2008	Started Noida Ecotech Unit
2007-08	Started manufacturing heat exchangers
2009	Dehradun Factory Unit – 5 was established
2010	Kasna Unit, Kala Amb Unit and Pune Unit established
2010	Dehradun Factory Unit – 6 was established
2012	Jhajjar Unit was established
2011	Investment by Green India Venture Fund
2012	Investment by Reliance Alternative Investments Fund – Private Equity Fund Scheme – I; Acquisition of PICL Investment by Ascent and exit to Reliance Alternative Investments Fund – Private Equity Fund Scheme – I through purchase by Ascent.

Source: Company

## Issue Details

This IPO is a mix of OFS and issue of fresh shares. Issue would constitute fresh issue worth of ₹ 475cr and OFS worth of ₹ 125cr. OFS is being offered by two of its promoters.

### Exhibit 1: Pre and post-IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	15297417	59%	13842237	44%
Non-promoter investors *	10619438	41%	10619438	34%
Public			5529686	18%
Total	25916855	100%	31446543	100%

Source: RHP, Angel Research; Note: Calculated on upper price band\* Pre IPO investors

## Objects of the offer

- Repayment/pre-payment, in full or in part, of certain borrowings availed by the company (₹ 345cr)
- General corporate purpose

## Key Management Personnel

**Jasbir Singh** is the Chairman and Chief Executive Officer of the Company. He holds a Bachelors degree in engineering (industrial production) from Karnataka University and Masters degree in business administration from the University of Hull, United Kingdom. He was appointed to the Board of the Company since October 1, 2004. He has over 13 years of experience in the RAC manufacturing sector. He has played an instrumental role in successful acquisition of PICL (India) Private Limited in 2012.

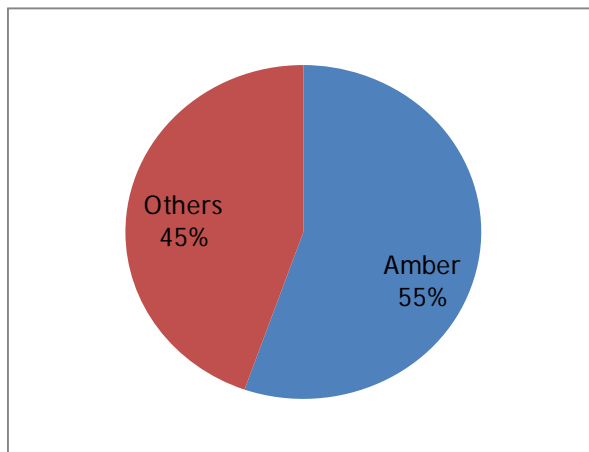
**Daljit Singh** is the Managing Director of the Company. He holds a Bachelors degree in electronic engineering from Nagpur University and Masters degree in information technology from the Rochester Institute of Technology. He has received 'Entrepreneur of the Year 2016' award from Ludhiana Management Association. He was appointed to the Board of the Company on January 1, 2008. Prior to joining this Company, he was associated with Morgan Stanley in New York as an analyst.

**Manoj Kumar Sehrawat** is a Nominee Director of the Company nominated by Ascent and was appointed to the Board of Company in January 12, 2017. He has 20 years of experience in financial services. He is a managing director at ADV Partners Management Pte. Limited (ADV), the manager to a sub fund of ADV Opportunities Fund LLP, a Cayman Islands exempted limited partnership.

### Investment Rationale

**Market leadership driven by integration and R&D:** Amber commands 19% market share in Indian RAC manufacturing through its 11 manufacturing facilities strategically located across India. In a short span of nine years, it has evolved from being original equipment manufacturing (OEM) to high-margin Original Design Manufacturing (ODM) in RACs mainly led by high degree of backward integration and strong R&D capabilities.

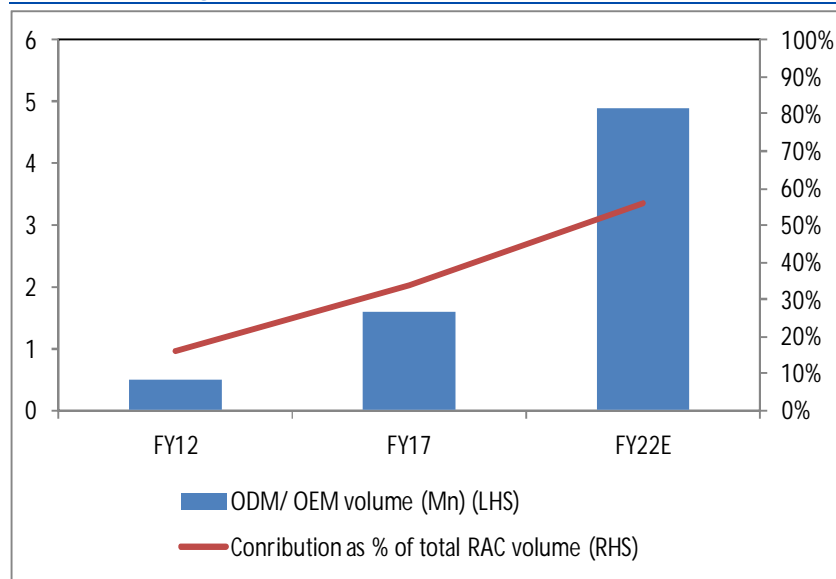
Exhibit 2: Market share in FY17 in OEM/ ODM manufacturing



Source: RHP, Frost and Sullivan

**Favorable industry trends:** Amber is in a sweet spot, as the RAC industry is growing at 12%+ CAGR. In the RAC industry, the share of ODM is expected to grow by 25% CAGR to reach 56% of the RAC market by 2022 (from current 34%). These factors favor Amber owing to its focus on ODM. Further, the product approval cycle goes beyond 2-3 years creating a moat for Amber to keep the competition under check. Amber has posted revenue CAGR of 19% FY14-17, which would further witness improvement as the company is now exploring export opportunities to UAE, Oman, SriLanka, Nigeria & Maldives.

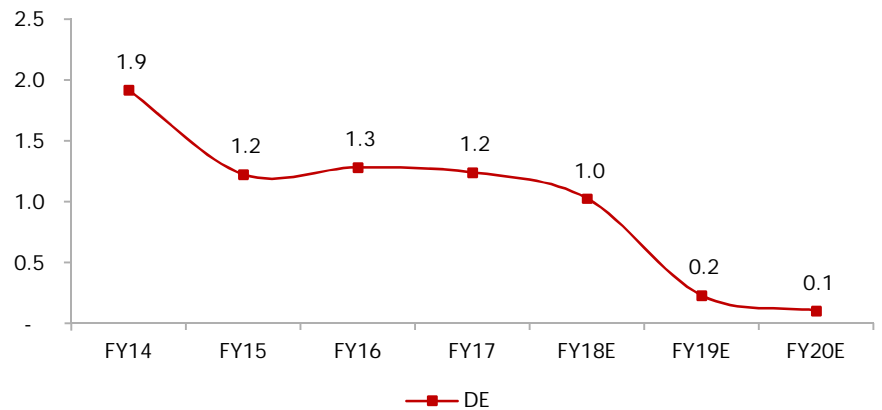
Exhibit 3: Rising share of OEM/ODM



Source: RHP, Frost and Sullivan

**Margin expansion and debt reduction:** The company has been able to improve its margins to 9% in H1FY18 led by higher capacity utilization and robust demand in RACs. Further, current utilization at sub 50% is likely to grow in future, providing operating leverage and thereby enhance margins. Moreover, Amber has been generating positive cash flow from operations over the last 5 years and will have negligible debt post IPO. The company is not planning to undertake any major capex in next 2-3 years. It plans to repay debts out of IPO proceeds, boosting PAT from FY19 onwards.

Exhibit 4: DE ratio to go down post IPO



Source: RHP, Company, Angel Research

## Outlook & Valuation

At the upper end of the price band, the P/E multiple works out to be 80x (pre issue equity base) of FY17 EPS which prima facie looks on the higher side. However, considering future earnings growth trajectory to be very robust (FY19 earnings expected to be 4x of FY17 earnings); we feel that the stock would trade at ~22-25x (post issue equity base) on our rough EPS for FY2020 which looks very attractive. Its closest peer - Dixon Technologies is trading at higher valuation of 30x FY20 earnings. **We recommend 'SUBSCRIBE' on the issue for a mid-to-long term period.**

## Key risks

### Client concentration

Amber's business is dependent on certain principal customers and the loss of or a significant reduction in purchases by such customers could adversely affect its business, financial condition, results of operations and future prospects. Sales to its top five and top 10 customers contributed 74.8% and 92.5% respectively in FY17.

### Downward trend in OEM/ODM business

In recent years, RAC brands have increasingly outsourced the manufacturing of their products to OEM/ODM players like Amber. However, there can be no assurance that they will continue to do so in the future.

### Changing preferences, advancement in technology

The markets in which company's customers compete are characterized by consumers and their rapidly changing preferences, advancement in technology and other related factors including lower manufacturing costs. Hence, the company may be affected by any disruptions in the industry.

**Consolidated Income Statement**

Y/E March (₹ cr)	FY14	FY15	FY16	FY17
<b>Total operating income</b>	973.4	1,230.3	1,089.0	1,644.4
% chg	11.2	26.4	-11.5	51.0
<b>Total Expenditure</b>	898.5	1,127.7	975.3	1,515.8
Raw Material	797.9	1,013.4	858.5	1,373.8
Personnel	32.0	33.5	36.5	43.8
Others Expenses	68.6	80.8	80.3	98.2
<b>EBITDA</b>	74.9	102.6	113.7	128.6
% chg	35.5	37.0	10.9	13.1
(% of Net Sales)	7.7	8.3	10.4	7.8
Depreciation & Amortisation	18.4	25.6	30.9	39.7
<b>EBIT</b>	56.5	77.0	82.9	88.9
% chg	31.8	36.4	7.6	7.3
(% of Net Sales)	5.8	6.3	7.6	5.4
Interest & other Charges	32.3	42.8	53.2	58.3
Other Income	6.3	6.2	3.1	7.9
(% of Sales)	0.6	0.5	0.3	0.5
<b>Recurring PBT</b>	30.5	40.4	32.7	38.4
% chg	4.7	32.4	-19.0	17.4
Tax	8.3	11.6	8.6	10.5
<b>PAT (reported)</b>	21.0	27.9	24.1	27.9
% chg	12.7	32.7	-13.5	15.7
(% of Net Sales)	2.2	2.3	2.2	1.7
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	8.1	10.8	9.3	10.8
% chg	12.7	32.7	-13.5	15.7

Source: RHP



### Consolidated Balance Sheet

Y/E March (Cr)	FY14	FY15	FY16	FY17
<b>Sources of funds</b>				
Equity Share Capital	21.7	21.7	21.7	23.8
Reserves & Surplus	187.8	216.8	240.9	311.1
<b>Shareholders' Funds</b>	<b>209.5</b>	<b>238.5</b>	<b>262.6</b>	<b>334.9</b>
Minority Interest	3.7	-	-	-
Total Loans	257.3	306.7	326.6	344.9
Other Liab & Prov	22.4	56.3	80.8	46.8
<b>Total Liabilities</b>	<b>492.9</b>	<b>601.5</b>	<b>670.0</b>	<b>726.6</b>
<b>Application of funds</b>				
Net Block	400.8	470.1	536.1	577.5
Current Assets	435.3	500.0	533.6	650.4
Inventories	174.2	189.4	225.8	267.7
Sundry Debtors	158.4	231.6	247.9	310.4
Cash	50.6	28.9	18.4	34.7
Loans & Advances	48.4	47.7	40.6	37.1
Other Assets	3.7	2.4	1.0	0.5
Current liabilities	368.2	404.4	445.0	560.0
<b>Net Current Assets</b>	<b>67.1</b>	<b>95.6</b>	<b>88.6</b>	<b>90.4</b>
Other Non Current Asset	25.0	35.8	45.3	58.6
<b>Total Assets</b>	<b>492.9</b>	<b>601.5</b>	<b>670.0</b>	<b>726.6</b>

Source: RHP

### Consolidated Cash Flow Statement

Y/E March (₹ cr)	FY14	FY15	FY16	FY17
Cash flow from operating activities	113.7	80.9	152.2	98.5
Cash flow from Investing activities	-115.2	-86.5	-83.9	-89.7
Cash flow from financing activities	-4.1	0.8	-67.9	-1.2
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>	<b>-5.7</b>	<b>-4.9</b>	<b>0.4</b>	<b>7.6</b>
Opening cash and cash equivalents	12.6	6.9	2.0	2.4
Closing cash and cash equivalents	6.9	2.0	2.4	10.0

Source: RHP

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	106.0	79.9	92.4	79.8
P/CEPS	30.5	22.8	23.9	19.9
P/BV	10.6	9.3	8.5	6.6
EV/Sales	3.0	2.4	2.7	1.8
EV/EBITDA	38.5	28.7	26.2	23.2
EV / Total Assets	5.8	4.9	4.4	4.1

### Per Share Data (Rs)

EPS (Basic)	8.1	10.8	9.3	10.8
EPS (fully diluted)	8.1	10.8	9.3	10.8
Cash EPS	28.1	37.7	36.0	43.2
Book Value	80.8	92.0	101.3	129.2

### Returns (%)

ROCE	12.1	14.1	14.1	13.1
Angel ROIC (Pre-tax)	15.6	15.4	13.7	13.7
ROE	10.0	11.7	9.2	8.3

### Turnover ratios (x)

Asset Turnover (Gross Block)	2.4	2.6	2.0	2.8
Inventory / Sales (days)	65	56	76	59
Receivables (days)	59	69	83	69
Payables (days)	75	72	95	99
Working capital cycle (days)	49	53	64	29

Source: RHP, Angel Research

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