

AMBER ENTERPRISES INDIA LIMITED

**IPO Note
(CAUTIOUS)**

Analyst:

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IPO details

Key Data	
Issue Opens	17-Jan-18
Issue Closes	19-Jan-18
Equity Shares Offered (in mn.)	6.98
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (₹)	10
Price Band (₹)	855-859
Max. Issue Size (₹ mn)	6,000
Lot Size (Eq. Shares)	17 and multiple thereof

Valuation	@ ₹855 per share	@ ₹859 per share
Market Cap (₹ mn)	25,085	25,203
Net Debt (₹ mn)	3,102	3,102
Enterprise Value (₹ mn)	28,187	28,304
EV/ Sales	1.7	1.7
EV/ EBITDA	21.9	22.0
P/B	7.5	7.5
P/E	66.8	67.1

Source: Red Herring Prospectus, Destimoney Research

	Pre Issue		Post Issue [^]	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	13.4	56.4%	13.4	45.8%
Public	10.4	43.6%	8.9	30.4%
Offer for sale			1.5	5.0%
Fresh Issue			5.5	18.8%
Total	23.8	100.00%	29.3	100.0%

Object of Offer for sale

- Prepayment or repayment of all or a portion of certain borrowings availed by the Company
- General corporate purposes

Recommendation

Amber is the leader in RAC industry in India with over 55% share of the industry volume. The company now caters to all the leading OEM brands in the industry through its 10 backward integrated manufacturing units. Low penetration (4%) in Indian market and forecasted 12.8% volume growth of RAC industry over the next five years remain the key highlights for the business.

Concentration of 92% of the revenue in the hands of top 10 clients poses a risk for the company. Revenue CAGR of 17% through FY13-17 is impressive but with low and consistent PAT margin (Except FY17) at 2.2%. ROE at 8.33% is at the lower end of industry average. Higher debt level at 1.03x equity would come down post issue and help to improve margin. On valuation front, at upper issue price of Rs.859, the stock is available at 67.1x FY17 earnings and 37.5x annualized FY18 earnings. To sum up, it is a mix bag with fundamentals pointing at the hidden growth prospects but at stretched valuation. **Therefore we are CAUTIOUS on the issue and believe that investors could get buying opportunity later after confirming the indicators justifying the stock price.**

Issue Highlights

- ❑ AMBER ENTERPRISES INDIA LIMITED (AEIL) is a market leader in the RAC OEM/ODM industry in India with a market share of 55.4% in terms of volume in Fiscal 2017 (Source: F&S Report). It is a one-stop solutions provider for the major brands in the RAC industry and currently serve eight out of the 10 top RAC brands in India.
- ❑ AEIL has a diversified product portfolio as set out below:
- ❑ **RACs:** It designs and manufactures complete RACs including window air conditioners (“WACs”) and indoor units (“IDUs”) and outdoor units (“ODUs”) of split air conditioners (“SACs”) with specifications ranging from 0.75 ton to 2 ton, across energy ratings and types of refrigerant. It also designs and manufactures Inverter RACs on 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 manufacture 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.
- ❑ AEIL has 10 manufacturing facilities with a total installed capacity as on March 31, 2017 to manufacture up to 1.59 million ODUs, 1.37 million IDUs and 0.59 million WACs annually
- ❑ Its key customers include leading RAC brands such as Daikin, Hitachi, LG, Panasonic, Voltas and Whirlpool. Its customers command around 75% share in the Indian RAC market in Fiscal 2017 (Source: F&S Report).
- ❑ The Indian RAC market volumes are expected to grow at a CAGR of 12.8% from Fiscal 2017 to Fiscal 2022. Due to the current low penetration of 4%, the Indian RAC market presents huge growth opportunity (Source: F&S Report). Due to factors such as the growth of Indian economy, population, disposable income and urbanization as well as changing lifestyle trends, shortening of replacement cycle, easy access to credit, longer hot weather conditions, better availability of electricity, increasing affordability of operating a RAC due to launch of energy efficient models and the growing advantage of domestic manufacturers compared to import markets (due to lower lead time and greater flexibility to adjust with market trends), we believe that AEIL are well placed not only to benefit from the growth in domestic market but also expand its export footprint.

Source: Red Herring Prospectus, Destimoney research

Strengths

- ❑ **Market leadership in the RAC OEM/ODM industry in India:** AEIL is a market leader in the RAC OEM/ODM industry in India with a market share of 55.4% in terms of volume in Fiscal 2017 (Source: F&S Report). Further, Its share of the overall RAC market in India in terms of volumes has grown from 14.7% in Fiscal 2015 to 19.1% in Fiscal 2017 (Source: F&S Report). AEIL has 10 manufacturing facilities with a total installed capacity as on March 31, 2017 to manufacture up to 1.59 million ODUs, 1.37 million IDUs and 0.59 million WACs annually
- ❑ **One stop solutions provider for the RAC industry with high degree of backward integration:** With its experience, product development expertise and capabilities in the manufacturing of RACs and components, it has become a one-stop solutions provider in India for the RAC industry.
- ❑ **Strong customer relationships with the majority of leading RAC brands in India:** AEIL has strong and established relationships with its customers, which includes eight out of the 10 top RAC brands in India. Its key customers include leading RAC brands such as Daikin, Hitachi, LG, Panasonic, Voltas and Whirlpool. Its customers command around 75% share in the Indian RAC market.
- ❑ **R&D and product design capabilities leading to high proportion of ODM business:** AEIL has been building up its design, product development and manufacturing capabilities as it believes that as an ODM service provider, it provide an attractive value proposition to RAC brands. The technological advancements and frequent design changes in the RAC industry in India necessitate innovation and it believes that its ODM service enables RAC brands to focus on their core competencies such as product differentiation, marketing and distribution.
- ❑ **Track record of financial performance:** Its revenue from operations has grown at a CAGR of 19.1% which is higher than the industry average of listed consumer durables brands of 11.7% for the period from Fiscal 2014 to Fiscal 2017. Further, its EBITDA margins of 8.3% for Fiscal 2017 was in line with the average of EBITDA margin of listed consumer durables brands for Fiscal 2017.

Source: Red Herring Prospectus, Destimoney research

Future road ahead

- ❑ **Expansion of existing product portfolio with a focus on ODM:** With its R&D and innovation capabilities backed by an in-house tool room, it has successfully designed and developed various components and RAC models. It has already manufacture RACs and Inverter RACs of various energy efficiency ratings using green refrigerant. It plans to add new RAC components to its portfolio in order to achieve further backward integration and gain greater wallet share of its customers.
- ❑ **Expand domestic customer base and grow export sales:** The Indian RAC market volumes are expected to grow at a CAGR of 12.8% from Fiscal 2017 to Fiscal 2022. This provides it with an opportunity to increase its sales and expand its customer base. It intends to leverage the low cost advantages of manufacturing in India and aim to initiate RACs exports into others countries in Middle East, South and South East Asia as well as Europe.
- ❑ **Continuing innovation and strengthening the R&D capacity:** To enhance its R&D capabilities it is undertaking a number of short-term and long-term R&D initiatives. For example, it is aiming to develop electronic R&D capacity which will focus on technologies such as 'internet ofthings' ("IoT", i.e. interconnection of computing devices embedded in appliances through internet) which could change the way RACs are monitored, analysed and controlled in the future. Further, its R&D team is working on new models of Inverter RACs, hybrid chassis and adoption of green technology and it will continue to realign its R&D focus to the changes in technology and customer preferences.
- ❑ **Pursue selective acquisitions, partnership opportunities and inorganic growth:** The track record of its growth and expansion of its business coupled with its vision of expanding its operations enables it to look for opportunities for inorganic growth in order to complement its existing businesses.
- ❑ **Continue to focus on increasing efficiency and profitability:** AEIL has implemented innovative strategic cost-saving and efficiency improvement measures. It intends to continue further integration of its manufacturing facilities and to carry out most of the processes in-house to maximise its efficiencies. It has undertaken initiatives to reduce costs, such as SLE 50 and COI, to bring efficiency in all processes with objectives such as reduction of cost of input material, optimisation of tool consumption by using designated tools for designated processes, reduction of waste, reduction of power and utilities costs and loss elimination.

Source: Red Herring Prospectus, Destimoney research

Consolidated Summary Financials

Income Statement

₹ mn	FY17	FY16	FY15	FY14	FY13
Total Income	16,444	10,890	12,303	9,734	8,757
Operating Expense	15,158	9,753	11,277	8,985	8,204
EBIDTA	1,286	1,137	1,026	749	553
Depreciation	397	309	256	184	125
Other Income	79	31	62	63	66
Finance Costs	583	532	428	323	203
PBT	384	327	404	305	291
Tax	105	86	116	83	94
PAT(Before Minority Interest)	279	241	288	222	197
Less : Minority Interest	-	-	-	(6)	(2)
Net Profit	279	241	288	216	195

₹ mn	FY17	FY16	FY15	FY14	FY13
EBIDTA Margin	7.8%	10.4%	8.3%	7.6%	6.3%
Net Margin	1.7%	2.2%	2.3%	2.2%	2.2%
ROE	8.3%	9.2%	12.1%	10.3%	14.7%
ROCE	24.5%	27.6%	28.5%	26.9%	23.4%

Balance Sheet

₹ mn	FY17	FY16	FY15	FY14	FY13
Liabilities					
Share capital	238	217	217	217	179
Reserves and surplus	3,111	2,409	2,168	1,878	1,148
Minority interest	-	-	-	37	31
Long-Term Borrowings	2,515	1,614	1,470	1,176	1,479
Deferred tax liabilities(Net)	434	329	268	193	123
Other Long Term Liabilities	-	447	271	12	4
Long term provisions	33	31	24	19	15
Short term borrowings	934	1,652	1,596	1,397	1,072
Trade payables	4,458	2,837	2,420	2,012	2,327
Other current liabilities	1,102	1,578	1,563	1,608	1,101
Short term provisions	40	34	61	62	33
Total Liabilities	12,866	11,150	10,058	8,611	7,512
Assets					
Net Block	4,638	4,237	3,519	2,879	2,349
Intangible assets	598	442	337	330	141
Capital work in progress	93	158	400	522	136
Intangible assets under development	120	198	118	-	103
Goodwill (on consolidation)	326	326	326	277	277
Long Term Loans & Advances	552	433	315	197	186
Other non current assets	34	19	43	53	112
Inventories	2,677	2,258	1,894	1,742	1,615
Trade receivables	3,104	2,479	2,316	1,584	1,791
Cash and cash equi.	347	184	289	506	432
Short Term Loans & Advances	371	406	477	484	338
Other Current Assets	5	10	24	37	31
Total Assets	12,866	11,150	10,058	8,611	7,512

Source: Red Herring Prospectus, Destimoney research

Key Risks

- ❑ AEIL'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.
- ❑ If its customers do not continue to outsource manufacturing, or if there is a downward trend in OEM/ODM business, its sales could be adversely affected.
- ❑ Any slowdown in the RAC industry may adversely impact its business, results of operations, financial condition and cash flows.
- ❑ AEIL do not have firm commitment agreements with its customers. If its customers choose not to source their requirements from AEIL, its business and results of operations may be adversely affected.

Source: Red Herring Prospectus, Destimoney research

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