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### Company Background

Incorporated in 1990, the first factory was established in Rajpura, Punjab. Amber Enterprises Ltd. (AEL) has structurally evolved into a complete Room Air-Conditioners (RAC) solution provider – the largest backward integrated Original Design Manufacturer (ODM) manufacturer of RACs - a key lever for growth and profits. The company's wide product portfolio includes RAC and its components (heat-exchangers, multi-flow condensers & motors), plastic components (case liners, extrusion sheets & vacuum forming), sheet metal products (microwave cavity, false ceilings, agriculture equipment components, etc.) AEL has 10 state-of-the-art manufacturing units across India, equipped with latest and advanced technologies. It caters to 8 out of the top-10 AC players in the country. The company successfully acquired PICL, an electric motors company in 2012 and put it on high growth path. Also AEL has recently acquired Iljin and Ever electronics making it the only company with the capability to manufacture Printed Circuit Boards (PCB's) in India.

### Investment Rationale

#### Global & Indian RAC Industry

Global RAC industry, currently valued at USD57bn which has a market penetration of around 30%, is dominated by China (43% of overall demand) which has an increasing penetration (>100%). The doubling of AC penetration in China over 2005-10 was led by GDP expansion while additional factors like subsidies which drove the AC penetration over 2010-15. Going ahead, the global RAC industry is expected to grow at 5% CAGR over FY17-25, driven by increasing penetration in emerging economies based on the focus on energy efficiency and replacement demand from developed countries. Thus, AC penetration still has the potential to deepen with increasing disposable income compared to the other consumer durable products as a house can have more than one AC. We believe India will track China's trajectory and see multifold increase in penetration of AC's (4% currently) with the rise in disposable income and discretionary spending over 8-10 years. The dismal penetration levels of India's RAC industry i.e. 4%, is set to improve with: a) changing Indian demographics, aided by a rising middle class, youth population and higher disposable income; b) sustained rise in average temperatures; and c) government's push towards 'Power for All', which will improve availability of electricity supported by higher non-food consumption expenditure in the rural areas. According to Frost and Sullivan Analysis, these factors are expected to drive the 12% volume CAGR for RAC's in India over FY18-22E and the industry to grow at 15.6% CAGR over FY18-22E.

#### Market Leader in RAC OEM/ODM Industry in India

AEL has the capability to develop, design and manufacture models of RACs across various energy ratings specified. The company also develops and manufactures complete Window Air-Conditioners (WAC) and Split Air-Conditioner (SAC) kits and components according to the designs and specifications required by customers. AEL is also one of the few Indian manufacturers with the capability to design and manufacture Inverter RACs. AEL serves eight out of 10 top RAC brands in India which command around 75% of the total market share. As a result, AEL is the market leader in the RAC OEM/ODM industry in India with a market share of 55.4% in terms of volume in FY17. Further, the company's share of the overall RAC market in India in terms of volumes has grown from 14.7% in FY15 to 19.1% in FY17. Switching cost (in terms of time invested for product approvals) for RAC brands is significant, leading to stickiness. The company enjoys high margin of ~8.8% as on FY18 with low risk, given high ODM revenue contribution (~85%) and low client concentration.

#### Wide array of Offerings along with Backward Integration

Given the company's experience, product development expertise and capabilities in manufacturing of RACs and components, it has become a one-stop solutions provider in India for the RAC industry. In addition to designing and manufacturing complete WAC, Indoor Units (IDUs) and Outdoor Units (ODUs), AEL offers customers manufacturing solutions ranging from critical components such as heat exchangers, multi-flow condensers and motors to non-critical components such as sheet metal and injection molding. In terms of bill of material, depending on the model of RAC, excluding compressors which are imported, AEL manufactures up to ~ 70% of the ODUs, 78% of the IDUs and 85% of WAC, which includes most of the critical components. Its wide array of component offering aids entry into new brands through components.

### Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

### Sector Outlook

Positive

### Stock

CMP (Rs)	934
Target Price (Rs)	1,209
BSE code	540902
NSE Symbol	AMBER
Bloomberg	AMBER IN
Reuters	AMBE.BO

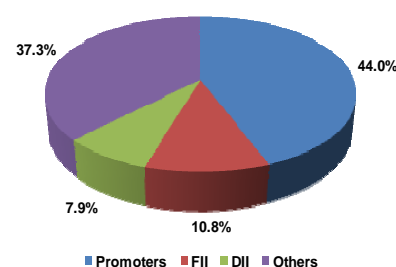
### Key Data

Nifty	11,378
52 Week H/L (Rs)	1,250/859
O/s Shares (Mn)	31.4
Market Cap (Bn)	29.5
Face Value (Rs)	10

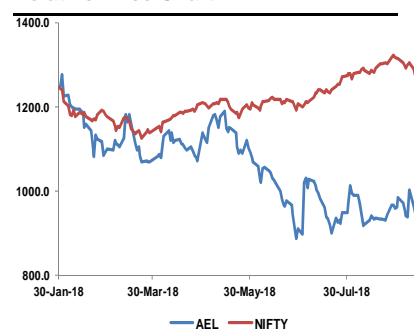
### Average volume

3 months	27,750
6 months	31,460
1 year	171,390

### Share Holding Pattern (%)



### Relative Price Chart



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# Amber Enterprises India Ltd.

# Initiating Coverage

## Financial performance to improve further

We expect the company to witness expansions in its EBITDA and Net Profit margins from 7.8% and 1.7% in FY17 to 8.4% and 4.7% respectively in FY21E due to economies of scale and repayment of debt. Going ahead we witness the RoCE and RoE to cross its previous peak levels of FY13 i.e. 11.4% and 14.8% respectively and we expect the RoCE & ROE to reach to 16.3% and 22.2% respectively by FY21E. AEL enjoys a strong balance sheet with its Debt to Equity ratio reducing from 1.6 in FY13 to almost negligible by FY21E. AEL has always witnessed positive operating cash flows since FY14 and we further expect the company to generate positive cash flows going ahead too which will further be utilised for inorganic growth and repayment of debt. The Company's cash conversion cycle has improved from 45 days in 2013 to 35 days in FY18 due considerable reduction in the number of debtor days from 75 days to 65 days leading to better working capital management. Going forward, we expect cash conversion period to improve by 4 days going forward i.e. from 35 days in FY18 to 31 days in FY21E.

## Why we like this stock & valuation methodology

AC demand is on a strong structural uptrend led by rising disposable income and improving infra availability. AEL, the leading Original Equipment Manufacturer (OEM), has been strengthening its presence with focused manufacturing which has helped it remain ahead of peers in terms of overall competency/offerings. Additionally, outsourcing has been on the rise which has placed AEL in a sweet spot with high share of value-added products. While an improving market share and high volumes will help AEL maintain competitive edge over peers, it will cap its returns structure given sustained investments being made to move up the value chain. The company has been showing healthy growth historically on the revenue as well as the profitability front except for FY16 when restructuring was undertaken to exit low margin verticals like lighting and small consumer appliances. With the current infusion of capital by the company, the Net Debt Equity ratio reduced from 0.9x in FY17 to 0.0x in FY18. However going ahead with the improving capacity utilizations coupled with economies of scale, we expect the profitability to improve significantly. Going ahead the company looks to grab market in the growing industry and thus we value the company at 25.0x times which is at a 22% discount to the Consumer Durables (CD) Sector and arrive at a target price of Rs. 1,209.

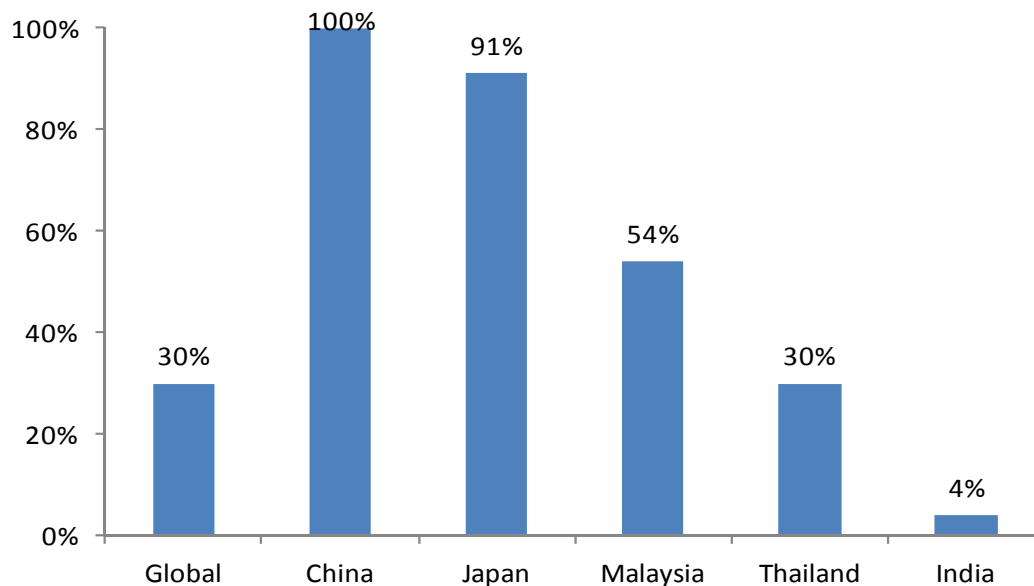
Key Financials								
YE March (Rs. mn)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>9,734</b>	<b>12,303</b>	<b>10,890</b>	<b>16,444</b>	<b>21,281</b>	<b>27,239</b>	<b>34,267</b>	<b>41,737</b>
Revenue Growth (Y-o-Y)	11.2%	26.4%	(11.5%)	51.0%	29.4%	28.0%	25.8%	21.8%
<b>EBIDTA</b>	<b>749</b>	<b>1,026</b>	<b>1,137</b>	<b>1,286</b>	<b>1,839</b>	<b>2,190</b>	<b>2,852</b>	<b>3,507</b>
EBIDTA Growth (Y-o-Y)	35.5%	37.0%	10.9%	13.1%	43.0%	19.1%	30.3%	23.0%
<b>Net Profit</b>	<b>222</b>	<b>288</b>	<b>241</b>	<b>279</b>	<b>623</b>	<b>1,066</b>	<b>1,520</b>	<b>1,971</b>
Net Profit Growth (Y-o-Y)	12.7%	29.6%	(16.2%)	15.7%	123.3%	71.1%	42.6%	29.7%
<b>Diluted EPS</b>	<b>10.2</b>	<b>13.3</b>	<b>11.1</b>	<b>11.7</b>	<b>19.8</b>	<b>33.9</b>	<b>48.3</b>	<b>62.7</b>
Diluted EPS Growth (Y-o-Y)	-7.1%	29.6%	(16.2%)	5.5%	69.1%	71.1%	42.6%	29.7%
<b>No of Diluted shares (mn)</b>	<b>217</b>	<b>217</b>	<b>217</b>	<b>238</b>	<b>314</b>	<b>314</b>	<b>314</b>	<b>314</b>
Key Ratios								
<b>EBIDTA (%)</b>	<b>7.7%</b>	<b>8.3%</b>	<b>10.4%</b>	<b>7.8%</b>	<b>8.6%</b>	<b>8.0%</b>	<b>8.3%</b>	<b>8.4%</b>
NPM (%)	2.3%	2.3%	2.2%	1.7%	2.9%	3.9%	4.4%	4.7%
<b>RoE (%)</b>	<b>13.0%</b>	<b>12.8%</b>	<b>9.6%</b>	<b>9.3%</b>	<b>10.2%</b>	<b>11.4%</b>	<b>14.5%</b>	<b>16.3%</b>
RoCE (%)	13.4%	14.9%	13.9%	13.8%	15.8%	15.4%	19.4%	22.2%
<b>Tax Rate %</b>	<b>27.2%</b>	<b>28.8%</b>	<b>26.3%</b>	<b>27.3%</b>	<b>30.3%</b>	<b>33.0%</b>	<b>33.0%</b>	<b>33.0%</b>
Book Value Per share (Rs.)	96.5	109.9	121.0	140.7	283.9	312.7	355.3	412.3
Valuation Ratios								
<b>P/E (x)</b>	<b>91.3x</b>	<b>70.5x</b>	<b>84.1x</b>	<b>79.7x</b>	<b>47.1x</b>	<b>27.6x</b>	<b>19.3x</b>	<b>14.9x</b>
EV/EBITDA	29.9x	22.5x	20.5x	19.7x	15.8x	13.2x	9.8x	7.5x
<b>P/BV (x)</b>	<b>9.7x</b>	<b>8.5x</b>	<b>7.7x</b>	<b>6.6x</b>	<b>3.3x</b>	<b>3.0x</b>	<b>2.6x</b>	<b>2.3x</b>
Market Cap. / Sales (x)	2.1x	1.6x	1.9x	1.4x	1.4x	1.1x	0.9x	0.7x

Source: Company, BP Equities Research

*We have valued AEL's business by assigning 25x to its FY20 earning estimates and have arrived at a target price of Rs 1,209 (potential upside of 29.4% from CMP) for an investment horizon of 12-15 months.*

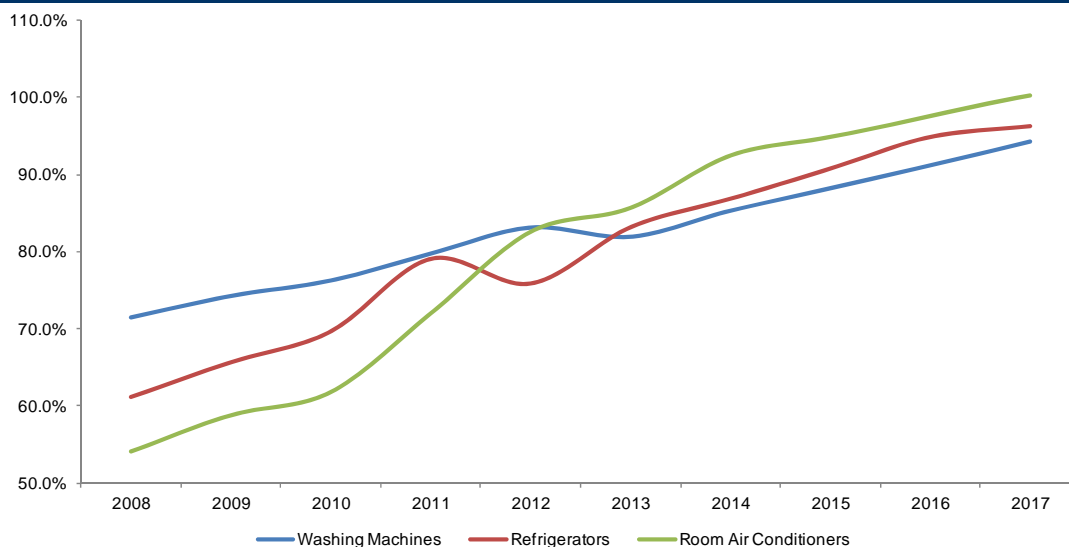
**Investment Rationale**
**Global & Indian RAC Industry Outlook**

Global RAC industry is currently valued at USD57bn which has a market penetration of around 30%, is dominated by China (43% of overall demand) which has an increasing penetration (>100%). The doubling of AC penetration in China over 2005-10 was led by GDP expansion while additional factors like subsidies which drove the AC penetration over 2010-15. Going ahead, the global RAC industry is expected to grow at 5% CAGR over FY17-25, driven by increasing penetration in emerging economies based on the focus on energy efficiency and replacement demand from developed countries.

**Global RAC Market Penetration Levels**


Source: Company, BP Equities Research

China had AC penetration of 8% in 1995, which gradually increased with the growth in per capita disposable income and increase in availability of electricity which was at ~90% (vs 83% for India currently). Subsidies provided by the China government in 2009, given its focus on the use of energy-efficient appliances to reduce energy consumption, drove AC penetration from ~12% in 2009 to ~39% in 2015 in rural China. Hence, we expect similar growth trajectory in India's AC industry given improving lifestyle and the government's thrust on electricity and energy efficiency.

**Consumer Durables Market Penetration in China**


Source: Company, BP Equities Research

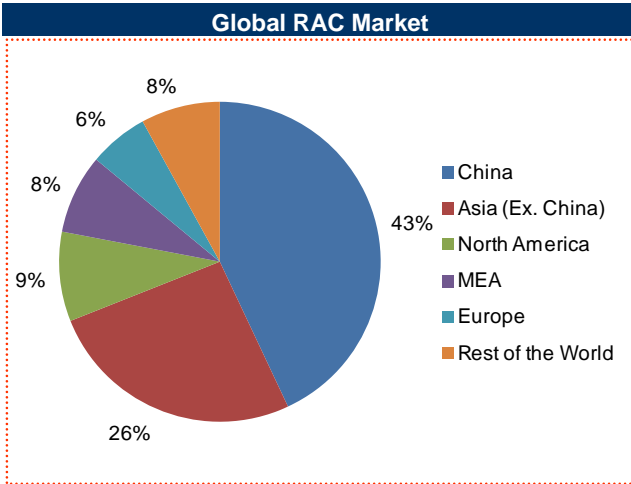
# Amber Enterprises India Ltd.

# Initiating Coverage

Thus, AC penetration still has the potential to deepen with increasing disposable income compared to the other consumer durable products as a house can have more than one AC. We believe India will track China's trajectory and see multifold increase in penetration of AC's (4% currently) with the rise in disposable income and discretionary spending over 8-10 years.

The dismal penetration levels of India's RAC industry i.e. 4%, is set to improve with:

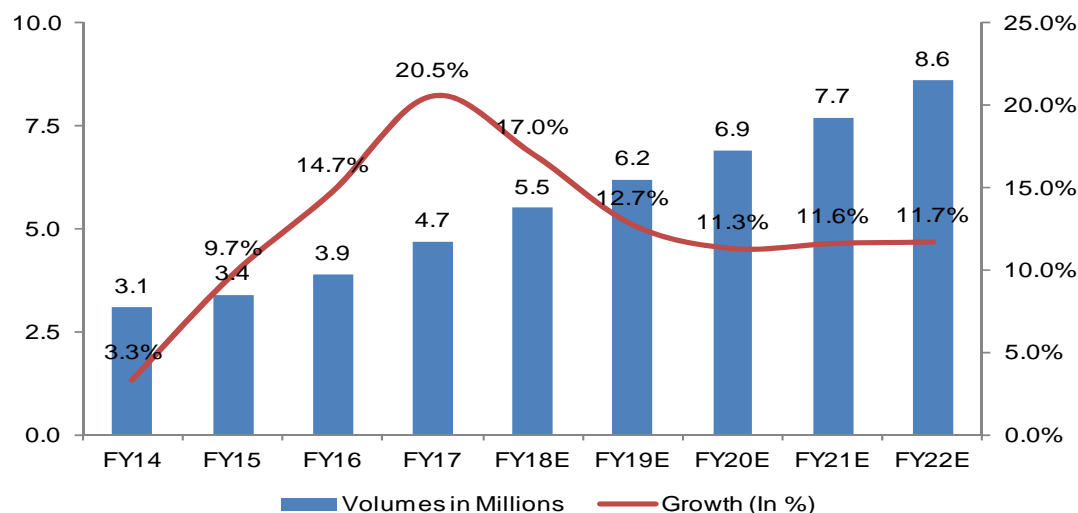
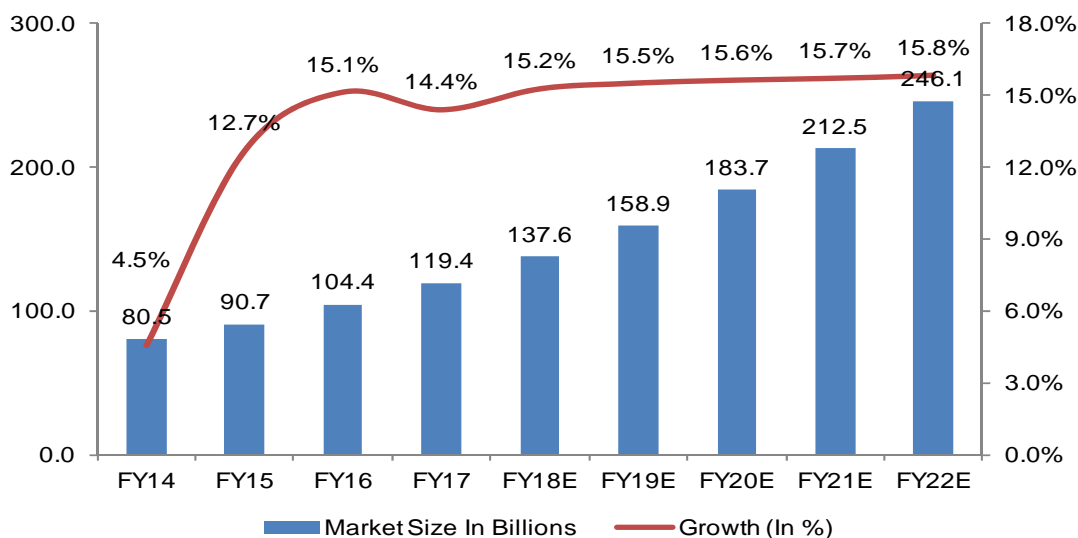
- a) Changing Indian demographics, aided by a rising middle class, youth population and higher disposable income;
- b) Sustained rise in average temperatures;
- c) Government's push towards 'Power for All', which will improve availability of electricity supported by higher non-food consumption expenditure in the rural areas.



Source: RHP, BP Wealth Research

According to Frost & Sullivan Analysis, these factors are expected to drive the 12% volume CAGR for RAC's in India over FY18-22E and the industry to grow at 15.6% CAGR over FY18-22E.

## Indian RAC Industry—Market Size (In Billions) & Volumes (In Millions)

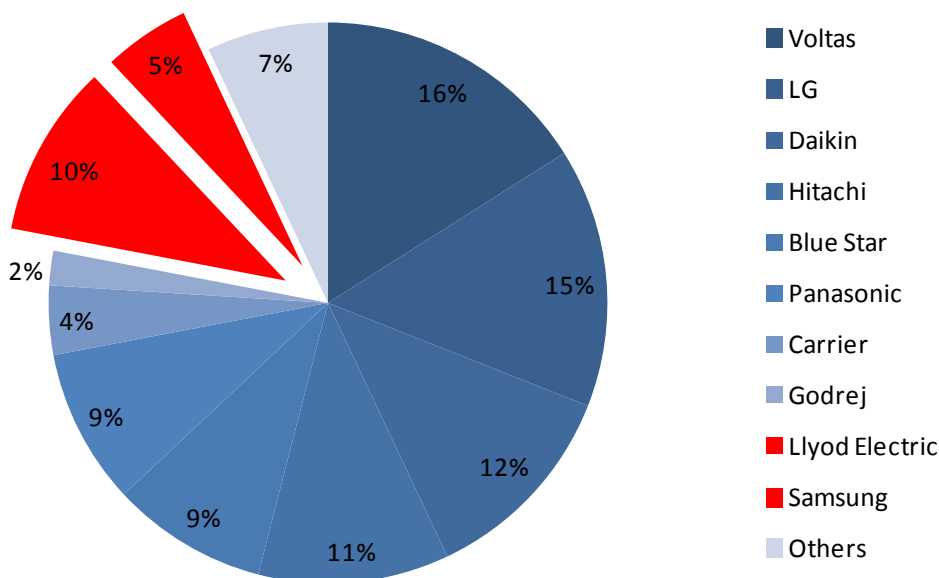


Source: Frost & Sullivan Analysis

**Market Leader in RAC OEM/ODM Industry in India**

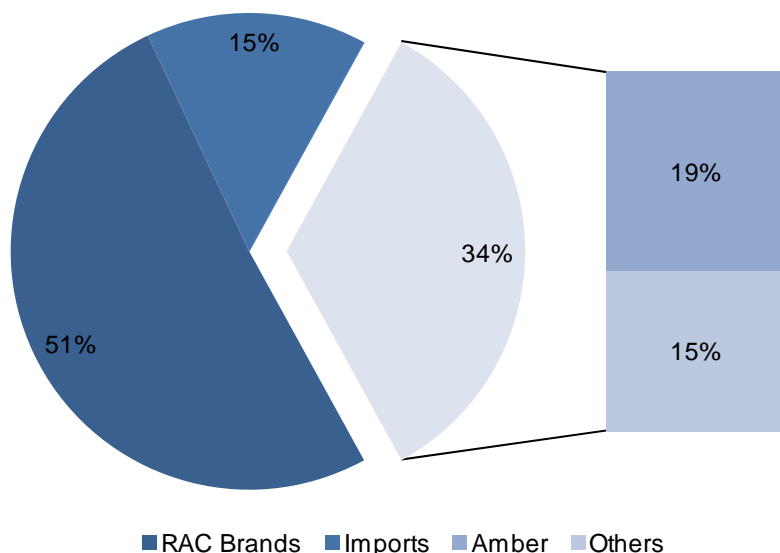
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**Market Share of Brands**



Brands in Red are not being serviced by AEL i.e. Samsung has its major plant in South where Amber has no presence and AEL services LG via its subsidiary IL JIN by supplying PCB's for Inverter AC's.

**Out-Sourcing v/s In-house Manufacturing**

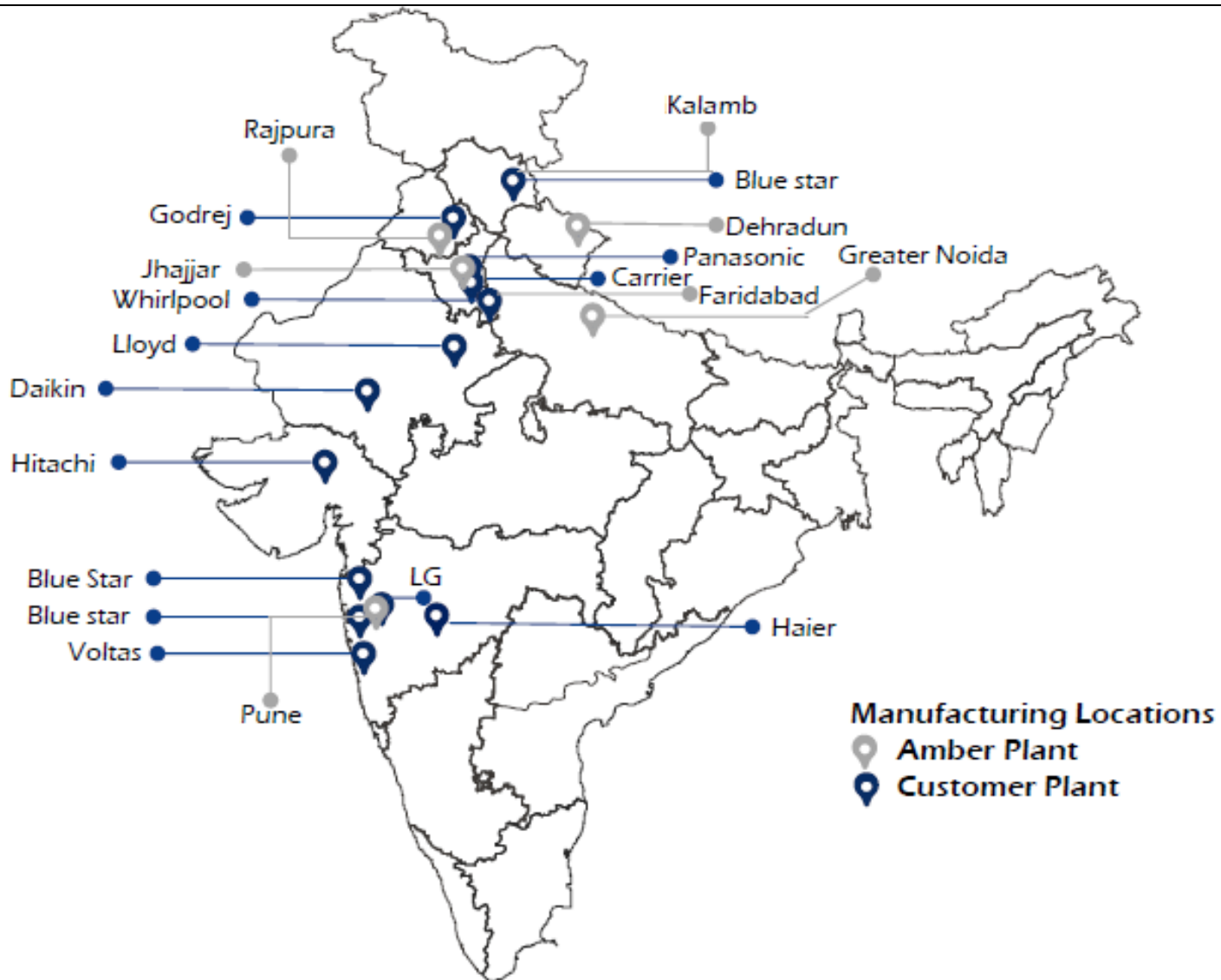


AEL has 55.4% market share in the OEM/ODM market and we further expect AEL market share to go uptill 64-65% going ahead due to the recent acquisitions

Source: Company, BP Equities Research

**Strategic Manufacturing Locations**

AEL has been able to capture market share because its plants are strategically located closer to the customers manufacturing locations which help in quicker turnaround time, reduce logistics and operational costs. The management is quite prudent to only incur a capex and setup a plant only if there is a cluster of 2-3 Brands having their plants nearby.



Source: Elara Capital, BP Equities Research



**Wide array of Offerings along with Backward Integration**

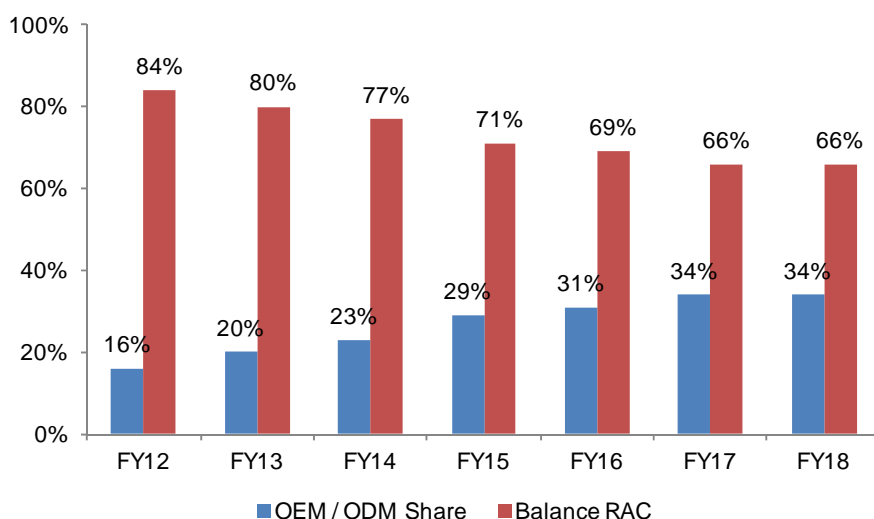
Given the company's experience, product development expertise and capabilities in manufacturing of RACs and components, AEL has become a one-stop solutions provider in India for the RAC industry. In addition to designing and manufacturing complete WAC, IDUs and ODUs, AEL offers customers manufacturing solutions ranging from critical components such as heat exchangers, multi-flow condensers and motors to non-critical components such as sheet metal and injection molding.

In terms of bill of material, depending on the model of RAC, excluding compressors which are imported, AEL manufactures up to ~ 70% of the ODUs, 78% of the IDUs and 85% of WAC, which includes most of the critical components. Its wide array of component offering aids entry into new brands through components.

Cost Structure of Electrical Components of RAC	Fixed Speed AC	Inverter AC
PCB	5%	21%
Packaging & Misc.	5%	5%
Plastic IMC	8%	7%
SMC (Multiflow Condensor)	11%	9%
Fan	3%	3%
Copper Tubing	7%	6%
IDU Motor	4%	4%
ODU Motor	6%	5%
Heat Exchanger	19%	16%
Compressor	33%	27%

Source: Company, BP Equities Research

In a fixed-speed AC, the compressor is either off or on, works at full capacity and electricity consumption is as configured. The compressor constitutes ~28-30% of the total bill of material, while printed circuit boards (PCB's) accounts for a mere ~5%. On the other hand, technology used in inverter's AC is very different wherein the compressor is always on, for which a smarter PCB is required. Thus, cost of a PCB in an inverter AC goes up to 21% of the total bill of material (versus 5% for a fixed-speed AC), thereby increasing overall costs. This increase in the electronic components in the bill of material of inverter AC's along with an expected rise in customs duty is expected to expand the scope for domestic OEM's/ODM's. Higher customs duty will discourage imports while increasing the reliance on domestic OEM's/ODM's. Thus, we believe, AEL's recent acquisition of IL JIN and Ever Electronics will bolster its growth opportunities apart from helping it move up the CD value chain.

**Increasing Manufacturing Share from Brands to OEM's / ODM's**


Source: Company, BP Equities Research

**Peer Comparison**
**Amber Enterprises Ltd.:**

With the recent acquisitions Amber manufactures 70% of the products in an RAC. AEL's recent acquisition of IL JIN and Ever Electronics will bolster its growth opportunities apart from helping it move up the CD value chain since the IL JIN is a major manufacturer for Printed Circuit Boards for Inverter AC's as well as the management expects to add 3-4 new customers in the consumer durable segment for IL JIN. Coming to Ever Electronics the management has currently acquired 19% stake in the company and further the management is planning to increase its stake to around 51% going ahead.

**Llyod Electric and Engineering Ltd.(LEEL):**

The company is the largest producer of coils and heat exchangers (fin & tube types) in India, serving the HVAC and R industry in the country as well as OEM in North America, Europe, the Middle East and Australia. It also manufactures air conditioners for Indian Railways, Metro Rail and buses at its Bhiwadi factory in Rajasthan. The company has a global presence with six state-of-the-art manufacturing facilities at Bhiwadi, Tauru (Haryana), Pantnagar (Uttarakhand), Kalaamb (Himachal Pradesh), Ranipet (Tamil Nadu) & Haridwar (Uttarakhand) and two overseas manufacturing facilities at Prague, Czech Republic and one in New Zealand. The products manufactured include a range of room air conditioners, such as inverter AC, roof mounted AC, a wide range of heat exchangers, air handling units, fans and other components. On a standalone basis, the company derived 27% of total revenue from OEM and packaged air conditioning units i.e. INR ~8,000mn in FY17.

**E-Durable (Not Listed)**

The company is one of the largest EMS firms with a product portfolio in air conditioners, microwave ovens, induction cook tops, irons, geysers, heat convectors and hair dryers. It has a manufacturing facility at Dehradun, Uttarakhand.

Product range: Window AC (1.0-1.5 tonne) and split ODU (1.0, 1.5 & 2.0 tonne). The company does not have a product range in indoor split AC. Also in terms of critical components, it only has multifold condensers (with a strategic tie-up with Delphi).

**Zamil (Not Listed)**

Zamil Air Conditioners India (ZAC India) is a subsidiary of Zamil Industrial Investment, Saudi Arabia ('ZIIC') and it began its full-fledged foray in India's air conditioner industry in 2013. ZAC India provides complete HVAC, MEP, and plumbing & firefighting solutions on turnkey basis. Its plant is a vertically integrated setup with inhouse design and development facilities, including a psychometric laboratory.

Backward Integration amongst Peers	Amber	Edurable	Zamil	Lloyd
WAC	✓	✓	✓	✓
IDU	✓	☒	☒	☒
ODU	✓	✓	✓	✓
Heat Exchangers	✓	☒	✓	✓
Multiflow Condensor	✓	☒	✓	✓
AC Motors	✓	☒	☒	☒
Metal Components	✓	✓	☒	☒
Plastic Moulding	✓	✓	☒	☒
Printed Circuit Boards	✓	☒	☒	☒

Source: Company, BP Equities Research

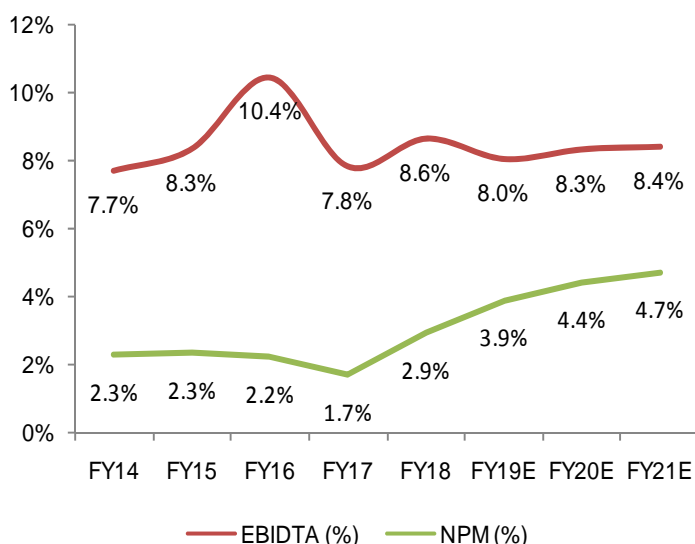
# Amber Enterprises India Ltd.

# Initiating Coverage

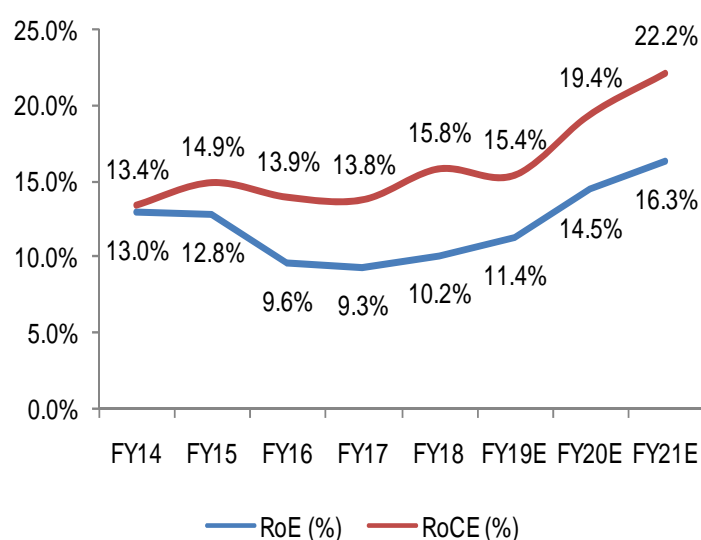
## Financial performance to improve further

We expect the company to witness expansions in its EBITDA and Net Profit margins from 7.8% and 1.7% in FY17 to 8.4% and 4.7% respectively in FY21E due to economies of scale and repayment of debt. Going ahead we witness the RoCE and RoE to cross its previous peak levels of FY13 i.e. 11.4% and 14.8% respectively and we expect the RoCE & ROE to reach to 16.3% and 22.2% respectively by FY21E. AEL enjoys a strong balance sheet with its Debt to Equity ratio reducing from 1.6 in FY13 to almost negligible by FY21E. AEL has always witnessed positive operating cash flows since FY14 and we further expect the company to generate positive cash flows going ahead too which will further be utilised for inorganic growth and repayment of debt. The Company's cash conversion cycle has improved from 45 days in 2013 to 35 days in FY18 due considerable reduction in the number of debtor days from 75 days to 65 days leading to better working capital management. Going forward, we expect cash conversion period to improve by 4 days going forward i.e. from 35 days in FY18 to 31 days in FY21E.

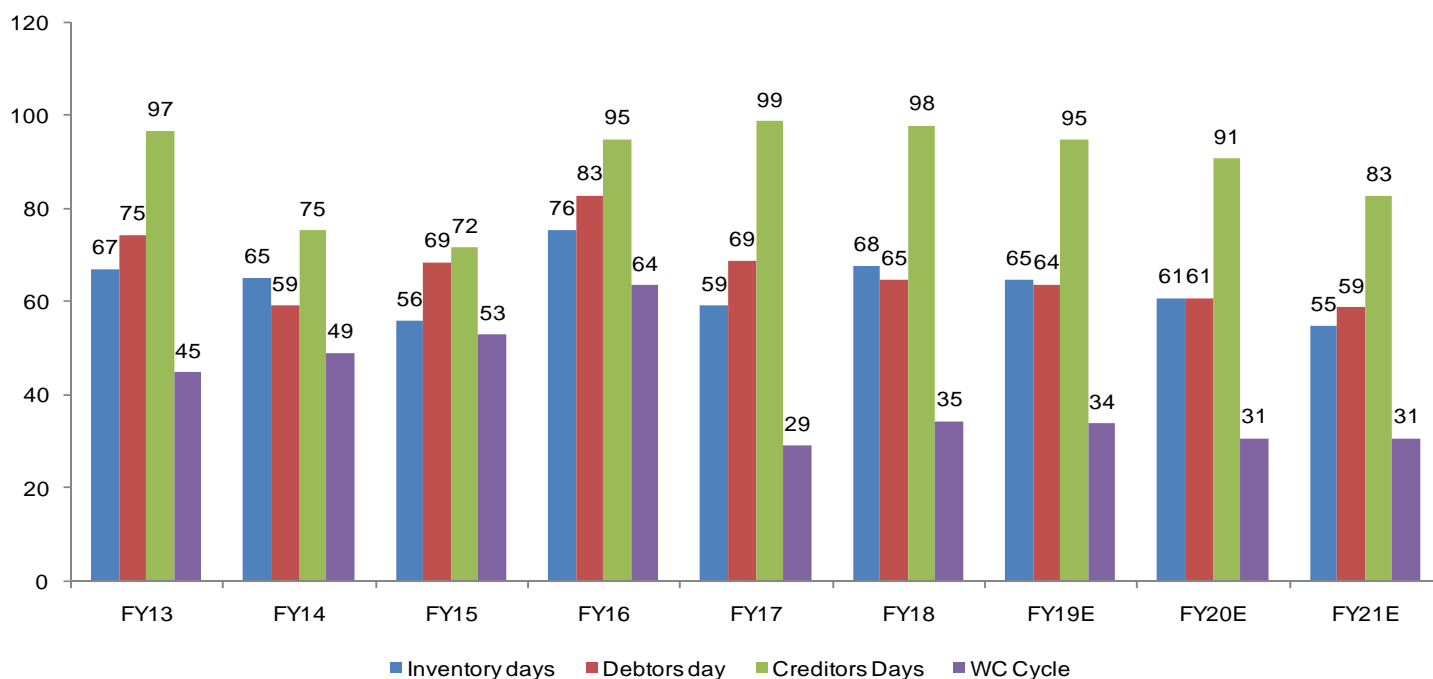
### Net Profit Margins to improve going forward



### ROE & RoCE Trend



### Comfortable Working Capital Cycle



Source: Company, BP Equities Research

# Amber Enterprises India Ltd.

# Initiating Coverage

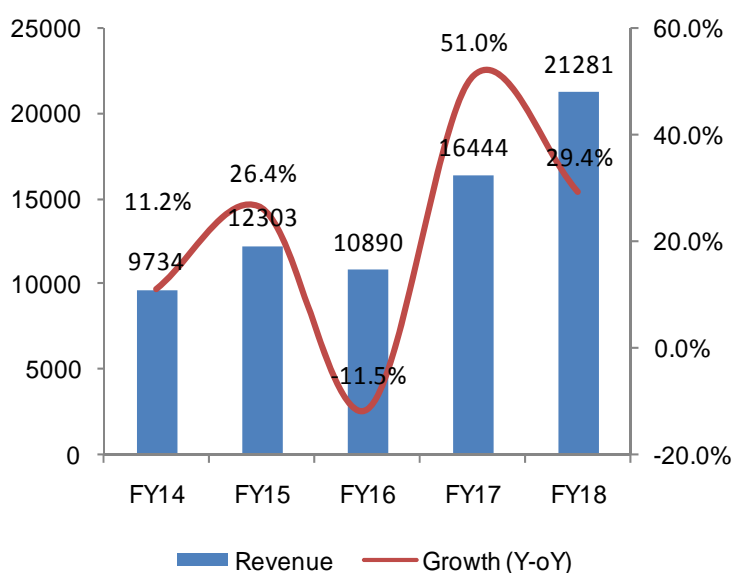
## Company Background

Incorporated in 1990, Amber Enterprises India Limited (AEIL) is Punjab based manufacturer of air conditioners and its component in India. With the market share of 55.4%, Amber is the market leader in the Room Air Conditioner (RAC) design and manufacturing. Amber manufacture these RAC's for 8 out of the 10 top RAC brands in India including Daikin, Hitachi, LG, Panasonic, Voltas and Whirlpool. These 8 brands have over 75% of market share in India. Amber Enterprises Product portfolio:

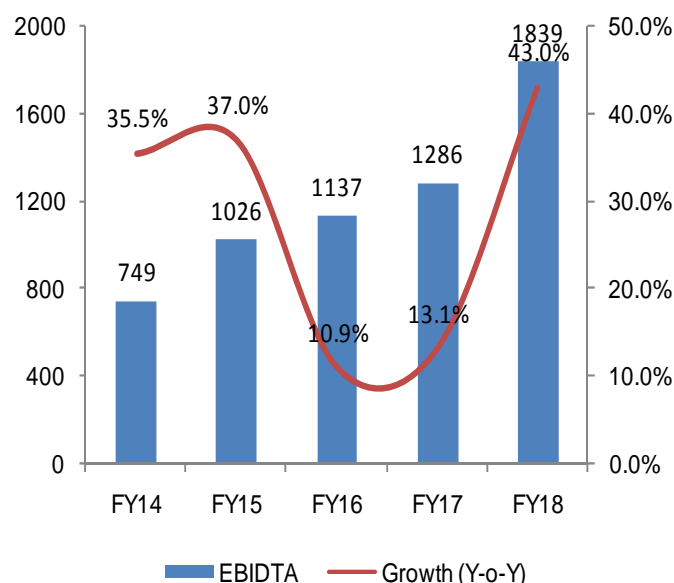
- ⇒ Room Air Conditioners (RACs) - This includes window air conditioners and indoor units and outdoor units of split air conditioners.
- ⇒ RAC Components - Critical and reliability functional components of RACs such as heat exchangers, motors and multi-flow condensers.
- ⇒ Other Components - Other related components including 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 has a dedicated R&D centre located at our Rajpura facility which is equipped with a psychometric lab which is accredited by National Accreditation Board for Testing and Calibration Laboratories (NABL) and facilities for 3D modeling, quality and product testing and a dedicated team. Company has 10 manufacturing facilities across seven locations in India.

### Revenue trend

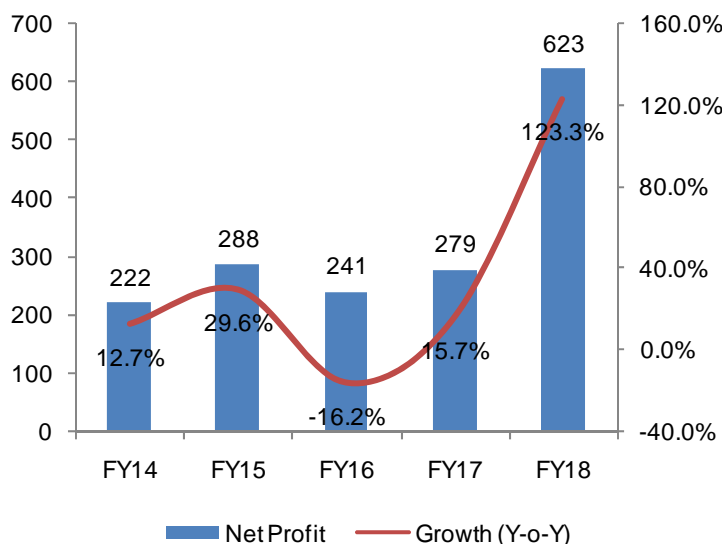


### EBITDA trend

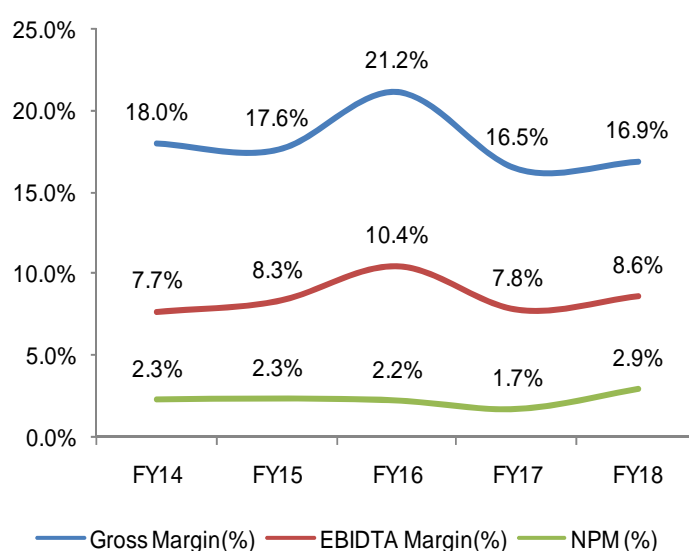


Source: Company, BP Equities Research

### Net profit trend



### Gross /EBITDA/ PAT Margin trend



Source: Company, BP Equities Research

**Amber Enterprises India Ltd.**
**Initiating Coverage**
**Key Milestones**

1990	Incorporation of the company at Jalandhar, Punjab
1994	Established its 1st factory in Rajpura.
2004	Commenced Operations at Dehradun Unit 4 for RAC manufacturing
2005-06	Started Manufacturing Microwave Ovens for LG
2007-08	Started Manufacturing Heat Exchangers
2008	Established Noida Ecotech Unit
2009	Established Dehradun Unit-V
2010	Established Kasna, Kalamb and Pune Unit for sheet metal manufacturing and established Dehradun Unit 6
2011	Investment by Green India Venture Fund
2012	Established Jhajjar Unit. Investment by Reliance Alternative IF and a Major Acquisition of PICL
2013	Exit to Green India Venture Fund
2017	Investment by Ascent; Exit to Reliance through purchase by Ascent. Acquisition of IL JIN.
2018	IPO and Investment in Ever Electronics

Source: Company, BP Equities Research

**Amber Enterprises India Ltd. - Management Details**

Name	Designation	Details
Mr. Jasbir Singh	CEO & Promoter	Jasbir Singh holds a bachelor's degree in engineering (industrial production) from Karnataka University and holds a master's degree in business administration from the University of Hull, United Kingdom. He has been a board member since October 2004. Jasbir has been instrumental in business growth. He has successfully established six factories in the past 10 years and set up relationships with large brands. Jasbir has 13 years of experience in the RAC manufacturing sector. Under his guidance, the company has initiated the concept of additive manufacturing solutions. Jasbir has played an instrumental role in successful acquisition of PICL (India) in 2012.
Mr. Daljit Singh	Managing Director & Promoter	Daljit Singh holds a bachelor's degree in electronic engineering from Nagpur University and master's degree in information technology from the Rochester Institute of Technology, the UK. He received the "Entrepreneur of the Year 2016" award from Ludhiana Management Association. Daljit has five years of experience in financial services and nine years in the RAC manufacturing sector.
Mr. Sanjay Arora	Director Operations	Sanjay Arora holds a diploma degree in electrical engineering with specialization in electronics & television technology from the YMCA Institute of Engineering, Faridabad. He has been with the company since July 2012 and has 34 years of experience in the manufacturing industry. Sanjay is responsible for overall operations. He is responsible for heading innovation, security and legal matters. Prior to joining the company, he was associated with Onida Savak, Monica Electronics, Kortek Electronics and LG Electronics.
Mr. Sudhir Goyal	CFO	Sudhir Goyal holds a bachelor's degree in commerce (Honors) from University of Delhi. He is an associate member of the Institute of Chartered Accountants of India. Sudhir has been with the company since October 2012 and has 13 years of experience in manufacturing industry. He is the head of finance and accounts departments. Prior to joining the company, Sudhir worked at Hythro Power Corporation, Altima Systems, ETA Ascon Group and Jamshedpur Mineral Wood Manufacturing.

Source: Company, BP Equities Research

## Amber Enterprises India Ltd.

## Initiating Coverage

Valuation Basis	FY18	FY19E	FY20E
<b>Amber Enterprises Ltd.</b>			
EPS	19.8	33.9	48.3
Growth in EPS (YoY %)	69%	71%	43%
Implied PE	47.1x	27.6x	19.3x
Assigned PE	25	25	25
Target Price			1,209
CMP			934
Upside Potential (%)			29.4%

Source: Company, BP Equities Research

*We have valued AEL's business by assigning 25x to its FY20 earning estimates and have arrived at a target price of Rs 1,209 (potential upside of 29.4% from CMP) for an investment horizon of 12-15 months.*

### Valuation & Outlook

AC demand is on a strong structural uptrend led by rising disposable income and improving infra availability. AEL, the leading OEM, has been strengthening its presence with focused manufacturing which has helped it remain ahead of peers in terms of overall competency/offers. Additionally, outsourcing has been on the rise which has placed AEL in a sweet spot with high share of value-added products. While an improving market share and high volumes will help AEL maintain competitive edge over peers, it will cap its returns structure given sustained investments being made to move up the value chain. The company has been showing healthy growth historically on the revenue as well as the profitability front except for FY16 when restructuring was undertaken to exit low margin verticals like lighting and small consumer appliances. With the current infusion of capital by the company, the Net Debt Equity ratio reduced from 0.9x in FY17 to 0.0x in FY18. However going ahead with the improving capacity utilizations coupled with economies of scale, we expect the profitability to improve significantly. Going ahead the company looks to grab market in the growing industry and thus we value the company at 25.0x times which is at a 22% discount to the CD Sector and arrive at a target price of Rs. 1,209.



## Amber Enterprises India Ltd.

## Initiating Coverage

Profit & Loss A/c						
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Revenues</b>	<b>10,890</b>	<b>16,444</b>	<b>21,281</b>	<b>27,239</b>	<b>34,267</b>	<b>41,737</b>
Growth %	(11.5%)	51.0%	29.4%	28.0%	25.8%	21.8%
<b>Total Operating Revenue</b>	<b>10,890</b>	<b>16,444</b>	<b>21,281</b>	<b>27,239</b>	<b>34,267</b>	<b>41,737</b>
Growth %	(11.5%)	51.0%	29.4%	28.0%	25.8%	21.8%
<b>Less:</b>						
Raw Material Consumed	8,585	13,738	17,681	22,718	28,647	34,976
Power & Fuel Cost	149	204	216	250	288	328
Employee Cost	365	438	498	756	908	1,089
Other Manufacturing Expenses	286	341	368	406	447	489
General and Administration Expenses	143	186	255	293	337	387
Selling and Distribution Expenses	142	200	327	409	514	626
Miscellaneous Expenses	82	52	97	218	274	334
<b>Total Operating Expenditure</b>	<b>9,753</b>	<b>15,158</b>	<b>19,442</b>	<b>25,050</b>	<b>31,415</b>	<b>38,230</b>
<b>EBIDTA</b>	<b>1,137</b>	<b>1,286</b>	<b>1,839</b>	<b>2,190</b>	<b>2,852</b>	<b>3,507</b>
Growth %	10.9%	13.1%	43.0%	19.1%	30.3%	23.0%
Less: Depreciation	309	397	490	523	549	573
<b>EBIT</b>	<b>829</b>	<b>889</b>	<b>1,349</b>	<b>1,666</b>	<b>2,303</b>	<b>2,934</b>
Growth %	7.6%	7.3%	51.7%	23.5%	38.2%	27.4%
Interest Paid	532	583	542	171	138	105
Non-operating Income	31	79	87	96	104	113
Extraordinary Items	0	0	0	0	0	0
Profit Before tax	327	384	894	1,591	2,269	2,942
Tax	86	105	271	525	749	971
<b>Net Profit before Minority</b>	<b>241</b>	<b>279</b>	<b>623</b>	<b>1,066</b>	<b>1,520</b>	<b>1,971</b>
Minority Interest	0	0	0	0	0	0
<b>Net Profit</b>	<b>241</b>	<b>279</b>	<b>623</b>	<b>1,066</b>	<b>1,520</b>	<b>1,971</b>
Adjusted Profit	241	279	623	1,066	1,520	1,971
<b>Reported Diluted EPS Rs</b>	<b>11.1</b>	<b>11.7</b>	<b>19.8</b>	<b>33.9</b>	<b>48.3</b>	<b>62.7</b>
Growth %	-16.2%	5.5%	69.1%	71.1%	42.6%	29.7%
<b>Adjusted Diluted EPS Rs</b>	<b>11.1</b>	<b>11.7</b>	<b>19.8</b>	<b>33.9</b>	<b>48.3</b>	<b>62.7</b>
Growth %	-16.2%	5.5%	69.1%	71.1%	42.6%	29.7%

Source: Company, BP Equities Research

Common Sized Profit & Loss Account ( Consolidated)						
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Total Revenues</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Less:</b>						
Raw Material Consumed	78.8%	83.5%	83.1%	83.4%	83.6%	83.8%
Power & Fuel Cost	1.4%	1.2%	1.0%	0.9%	0.8%	0.8%
Employee Cost	3.4%	2.7%	2.3%	2.8%	2.6%	2.6%
Other Manufacturing Expenses	2.6%	2.1%	1.7%	1.5%	1.3%	1.2%
General and Administration Expenses	1.3%	1.1%	1.2%	1.1%	1.0%	0.9%
Selling and Distribution Expenses	1.3%	1.2%	1.5%	1.5%	1.5%	1.5%
Miscellaneous Expenses	0.8%	0.3%	0.5%	0.8%	0.8%	0.8%
<b>Total Operating Expenditure</b>	<b>89.6%</b>	<b>92.2%</b>	<b>91.4%</b>	<b>92.0%</b>	<b>91.7%</b>	<b>91.6%</b>
<b>EBIDTA</b>	<b>10.4%</b>	<b>7.8%</b>	<b>8.6%</b>	<b>8.0%</b>	<b>8.3%</b>	<b>8.4%</b>
Less: Depreciation	2.8%	2.4%	2.3%	1.9%	1.6%	1.4%
<b>EBIT</b>	<b>7.6%</b>	<b>5.4%</b>	<b>6.3%</b>	<b>6.1%</b>	<b>6.7%</b>	<b>7.0%</b>
Interest Paid	4.9%	3.5%	2.5%	0.6%	0.4%	0.3%
Non-operating Income	0.3%	0.5%	0.4%	0.4%	0.3%	0.3%
Extraordinary Items	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Profit Before tax</b>	<b>3.0%</b>	<b>2.3%</b>	<b>4.2%</b>	<b>5.8%</b>	<b>6.6%</b>	<b>7.0%</b>
Tax	0.8%	0.6%	1.3%	1.9%	2.2%	2.3%
<b>Net Profit before Minority</b>	<b>2.2%</b>	<b>1.7%</b>	<b>2.9%</b>	<b>3.9%</b>	<b>4.4%</b>	<b>4.7%</b>
Minority Interest	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net Profit</b>	<b>2.2%</b>	<b>1.7%</b>	<b>2.9%</b>	<b>3.9%</b>	<b>4.4%</b>	<b>4.7%</b>
Adjusted Profit	2.2%	1.7%	2.9%	3.9%	4.4%	4.7%

Source: Company, BP Equities Research

**Amber Enterprises India Ltd.**
**Initiating Coverage**
**Balance Sheet ( Consolidated)**

YE March( Rs. mn)	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Liabilities</b>						
Equity Capital	217	238	314	314	314	314
Share application money pending allotment	0	0	0	0	0	0
Reserves & Surplus	2,409	3,111	8,613	9,519	10,860	12,651
<b>Equity</b>	<b>2,626</b>	<b>3,349</b>	<b>8,928</b>	<b>9,834</b>	<b>11,174</b>	<b>12,965</b>
Preference Share Capital	0	0	0	0	0	0
<b>Net Worth</b>	<b>2,626</b>	<b>3,349</b>	<b>8,928</b>	<b>9,834</b>	<b>11,174</b>	<b>12,965</b>
Minority Interest						
Net Deferred tax liability/(Asset)	808	468	701	701	701	701
<b>Total Loans</b>	<b>3,266</b>	<b>3,449</b>	<b>1,055</b>	<b>1,055</b>	<b>855</b>	<b>655</b>
<b>Capital Employed</b>	<b>6,700</b>	<b>7,266</b>	<b>10,684</b>	<b>11,590</b>	<b>12,730</b>	<b>14,321</b>
<b>Assets</b>						
Gross Block	6,330	7,281	9,317	9,877	10,367	10,817
Less: Depreciation	1,326	1,719	2,217	2,740	3,290	3,863
<b>Net Block</b>	<b>5,005</b>	<b>5,562</b>	<b>7,100</b>	<b>7,137</b>	<b>7,077</b>	<b>6,954</b>
Capital WIP	357	213	297	95	95	95
<b>Long Term Loans &amp; Advances</b>	<b>408</b>	<b>500</b>	<b>218</b>	<b>218</b>	<b>218</b>	<b>218</b>
Non Current Investments	45	86	87	87	87	87
<b>Current Assets</b>						
Inventories	2,258	2,677	3,956	4,851	5,727	6,289
Sundry Debtors	2,479	3,104	3,786	4,776	5,727	6,747
Cash and Bank Balance	184	347	1,338	1,564	2,409	3,572
Loans and Advances	379	340	540	545	685	835
Other Current Assets	36	37	168	215	271	330
<b>Total Current Assets</b>	<b>5,336</b>	<b>6,504</b>	<b>9,788</b>	<b>11,951</b>	<b>14,819</b>	<b>17,773</b>
<b>Less:Current Liabilities &amp; Provisions</b>						
Sundry Creditors	2,837	4,458	5,720	6,520	7,832	8,693
Provisions	34	40	222	272	343	417
Other Current Liabilities	1,578	1,102	864	1,105	1,391	1,694
<b>Total Current Liabilities &amp; Provisions</b>	<b>4,450</b>	<b>5,600</b>	<b>6,806</b>	<b>7,898</b>	<b>9,565</b>	<b>10,805</b>
<b>Net Current Assets</b>	<b>886</b>	<b>904</b>	<b>2,982</b>	<b>4,054</b>	<b>5,254</b>	<b>6,968</b>
Miscellaneous Assets	0	0	0	0	0	0
<b>Capital Applied</b>	<b>6,700</b>	<b>7,266</b>	<b>10,684</b>	<b>11,590</b>	<b>12,730</b>	<b>14,321</b>

Source: Company, BP Equities Research



**Amber Enterprises India Ltd.**
**Initiating Coverage**

<b>Cash Flows ( Consolidated)</b>						
<b>YE March (Rs. Mn)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
<b>PAT</b>	<b>241.0</b>	<b>279.0</b>	<b>623.1</b>	<b>1,066.0</b>	<b>1,520.4</b>	<b>1,971.2</b>
Less: Non Operating Income	(30.9)	(78.6)	(87.2)	(95.9)	(104.0)	(112.9)
Add: Depreciation	308.6	397.0	490.2	523.5	549.5	573.3
Add: Interest Paid	532.5	583.4	541.7	170.9	137.7	104.8
<b>Operating Profit before Working Capital Changes</b>	<b>1,051.2</b>	<b>1,180.8</b>	<b>1,567.8</b>	<b>1,664.5</b>	<b>2,103.5</b>	<b>2,536.5</b>
(Inc)/Dec in Current Assets	(77.9)	(585.7)	(1,013.0)	(1,042.7)	(1,146.7)	(1,228.2)
Inc/(Dec) in Current Liabilities	406.0	1,150.1	1,206.5	1,091.2	1,667.8	1,239.1
Changes in Inventory	(363.4)	(418.9)	(1,279.8)	(894.4)	(876.0)	(562.4)
<b>Net Cash Generated From Operations</b>	<b>1,016.0</b>	<b>1,326.3</b>	<b>481.5</b>	<b>818.6</b>	<b>1,748.7</b>	<b>1,985.0</b>
<b>Cash Flow from Investing Activities</b>						
(Inc)/Dec in Fixed Assets	(1,142.5)	(950.4)	(2,036.6)	(560.0)	(490.0)	(450.0)
(Inc)/Dec in Capital Work In Progress	162.0	143.2	(84.1)	202.8	0.0	0.0
(Inc)/Dec in Investment (Strategic)	0.0	0.0	0.0	0.0	0.0	0.0
(Inc)/Dec in Investment (Others)	(110.3)	(92.4)	282.3	0.0	0.0	0.0
Add: Non Operating Income	30.9	78.6	87.2	95.9	104.0	112.9
<b>Net Cash Flow from/(used in) Investing Activities</b>	<b>(1,044.9)</b>	<b>(861.9)</b>	<b>(1,751.9)</b>	<b>(261.4)</b>	<b>(386.0)</b>	<b>(337.1)</b>
<b>Cash Flow from Financing Activities</b>						
Inc/(Dec) in Total Loans	444.3	(157.3)	(2,160.4)	0.0	(200.0)	(200.0)
Inc/(Dec) in Reserves & Surplus	0.0	473.0	4,878.9	0.0	0.0	(0.0)
Inc/(Dec) in Equity	0.0	21.1	76.4	0.0	0.0	0.0
Dividend Paid	0.0	(50.1)	0.0	(160.0)	(180.0)	(180.0)
Less: Interest Paid	(532.5)	(583.4)	(541.7)	(170.9)	(137.7)	(104.8)
Adjustments	(5.1)	10.1	10.6	0.0	0.0	0.0
<b>Net Cash Flow from Financing Activities</b>	<b>(93.2)</b>	<b>(286.6)</b>	<b>2,263.8</b>	<b>(330.9)</b>	<b>(517.7)</b>	<b>(484.8)</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>(122.1)</b>	<b>177.8</b>	<b>993.4</b>	<b>226.3</b>	<b>845.0</b>	<b>1,163.1</b>
<b>Opening Balance</b>	<b>289.0</b>	<b>183.6</b>	<b>347.2</b>	<b>1,338.1</b>	<b>1,564.4</b>	<b>2,409.4</b>
<b>Closing Balance Cash and Cash Equivalents</b>	<b>183.6</b>	<b>347.2</b>	<b>1,338.1</b>	<b>1,564.4</b>	<b>2,409.4</b>	<b>3,572.5</b>

Source: Company, BP Equities Research



## Amber Enterprises India Ltd.

## Initiating Coverage

## Key Ratios ( Consolidated)

YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Key Operating Ratios</b>						
EBITDA Margin (%)	10.4%	7.8%	8.6%	8.0%	8.3%	8.4%
Tax / PBT (%)	26.3%	27.3%	30.3%	33.0%	33.0%	33.0%
Net Profit Margin (%)	2.2%	1.7%	2.9%	3.9%	4.4%	4.7%
RoE (%)	9.6%	9.3%	10.2%	11.4%	14.5%	16.3%
RoCE (%)	13.9%	13.8%	15.8%	15.4%	19.4%	22.2%
Current Ratio (x)	1.2x	1.2x	1.4x	1.5x	1.5x	1.6x
Dividend Payout (%)	0.0%	18.0%	0.0%	15.0%	11.8%	9.1%
Book Value Per Share (Rs.)	121.0	140.7	283.9	312.7	355.3	412.3
<b>Financial Leverage Ratios</b>						
Net Debt/ Equity (x)	1.2	0.9	(0.0)	(0.1)	(0.1)	(0.2)
Interest Coverage (x)	2.1x	2.2x	3.4x	12.8x	20.7x	33.5x
Interest / Debt (%)	16.8%	17.4%	24.1%	16.2%	14.4%	13.9%
<b>Growth Indicators %</b>						
Growth in Gross Block (%)	22.0%	15.0%	28.0%	6.0%	5.0%	4.3%
Sales Growth (%)	(11.5%)	51.0%	29.4%	28.0%	25.8%	21.8%
EBITDA Growth (%)	10.9%	13.1%	43.0%	19.1%	30.3%	23.0%
Net Profit Growth (%)	(16.2%)	15.7%	123.3%	71.1%	42.6%	29.7%
Diluted EPS Growth (%)	(16.2%)	5.5%	69.1%	71.1%	42.6%	29.7%
<b>Cash Flows</b>						
Cash Flow from Operations	1016.0	1326.3	481.5	818.6	1748.7	1985.0
Free Cash Flows	-130.2	131.2	-2623.0	71.8	472.2	450.2
<b>Turnover Ratios</b>						
Debtors (Days of net sales)	83	69	65	64	61	59
Creditors (Days of Raw Materials)	95	99	98	95	91	83
Inventory (Days of Optg. Costs)	76	59	68	65	61	55

Source: Company, BP Equities Research



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Disclaimer Appendix

**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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