

IPO NOTE

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15th January 2018

Issue Details	
Price Band (Rs)	855 – 859
Face Value(Rs)	10
Issue Size(Rs)	600 Cr
Issue Type	Book Building
Minimum lot	17 Shares
Issue Opens	January 17, 2018
Issue Closes	January 19, 2018
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	January 24, 2018
Unblocking of Funds	January 25, 2018
Credit of shares to Demat Account	January 29, 2018
Listing on exchange	January 30, 2018

Other Detail	
Book Running Lead Managers	Edelweiss Financial Services Limited, IDFC Bank Limited, SBI Capital Markets Limited, BNP Paribas
Registrar	Karvy Computershare Private Limited

Amber Enterprises India Limited

Company Background

Incorporated in 1990, Gurgaon headquartered Amber Enterprises India Limited (Amber) is a leading Room Air Conditioner (RAC) manufacturer with 55% OEM market share. They supply air conditioners and its components to leading consumer durable brands. Their first manufacturing facility was established back in 1994 at Rajpura and currently, they have 11 factories located at 7 locations in India. Amber is backward integrated manufacturers with in-house R&D set up at Rajpura plant. Factories are accredited with the major industry accreditations in their respective fields. Few quality certificates they hold include ISO 9001, 8001:2007 OHSAS Certificate, 9001:2015 QMS Certificate, and 4001:2015 EMS Certificate.

Amber serves customers such as Daikin Industries Ltd, Hitachi Ltd, LG Electronics Inc, Panasonic Corp., Voltas Ltd, Blue star, Godrej, Whirlpool Corp, Carrier, SML Isuzu, Mahindra, and John Deere. The company designs and manufactures complete room air-conditioners including window air-conditioners and indoor units and outdoor units of split air conditioners with specifications ranging from 0.75 tonnes to 2 tonnes, across energy ratings and types of refrigerants. Apart from air conditioners, they are also into manufacturing of case liner for fridge and washing machines and various components for refrigerators and automobiles.

Issue Details

The initial share sale of Amber comprises total 69,84,865 shares of face value of Rs.10 each, raising Rs.600 Cr on the upper price band of Rs.859. There is a fresh issue of 55,29,685 shares raising Rs.475 Cr and an offer for sale of 14,55,180 shares by promoters of the company Jasbir Singh and Daljit Singh raising Rs. 125 Cr. Total issue will dilute 22% of post issue holding. Of the total offering, 50,000 shares are reserved for employees who will also get a discount of Rs.85 per share on the issue price.

Proceeds from the fresh issue of shares will be used by the company for repayment of debt, making the company almost debt free post IPO

IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at	
			Lower Band (Rs.855)	Upper Band (Rs.859)
Employees		50,000	4.28	4.30
QIB	50%	34,67,432	296.47	297.85
Non-Institutional	15%	10,40,230	88.94	89.35
Retail	35%	24,27,203	207.31	208.50
Total		69,84,865	597	600

Source: Company RHP, ACMIIL

Outlook and Valuations:

Amber Enterprises India Limited is a Gurgaon based manufacturer and a leader in the RAC OEM market. They cater to eight top brands of air conditioners, which hold 75% market share. Amber also exports products to Saudi Arabia, Oman, Sri Lanka, Nigeria, and Maldives. During FY13-17, revenue grew at a CAGR of 16.98% with net profit growing at a CAGR of 9.40%. With its 11 state-of-the-art facilities at seven locations in the country and accomplished team, they are well placed to benefit from India's least penetrated RAC

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market, which is expected to grow at a CAGR of 12.8% by 2022. At the upper price of Rs.859, asking price is at a P/E of 67x at FY17 EPS of Rs.12.8, which makes it fairly priced. Hence, we recommend to **SUBSCRIBE** the issue with a long-term perspective.

Business Overview

Amber is the leader of domestic air conditioner OEM market with 55% market share in volume terms and has also started exporting to MENA region. Apart from full unit kit of AC they also manufacture components such as heat exchangers, motors, inverter and non-inverter printed circuit boards and multi-flow condensers, sheet metal components, copper tubing and injection moldings. They also cater to other white goods manufacturers by providing various components.

Company have a diversified product portfolio which can be categorised as below:

- **RACs:** AEIL design and manufacture complete RACs including window air conditioners (“WACs”), 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. They also design and manufacture Inverter RACs ranging from 1 ton to 2 ton.
- **RAC Components:** Apart from full kit company manufactures critical and reliability functional components of RACs such as heat exchangers, motors, inverter and non-inverter printed circuit boards and multi-flow condensers. They also manufacture other RAC components such as sheet metal components, copper tubing and injection molding components.
- **Other Components:** They manufacture components for other consumer durables and automobiles such as case liners for refrigerator, plastic extrusion sheets and printed circuit boards for consumer durables and automobile industry, sheet metal components for microwave, washing machine tub assemblies and for automobiles and metal ceiling industries.

Investment Rationale

Strong geographical presence

Amber started their journey from Rajpura plant in 1994 and at present they operate through 11 plants based at seven locations i.e. Rajpura (Punjab), Faridabad and Jhajjar (Haryana), Noida and Kala AMB (NCR), Dehradun, and Pune (Maharashtra). Of the total plants, three plants at Jhajjar, Dehradun and Pune are dedicated for RAC where as other plants manufacture various components. Manufacturing facilities have a high degree of backward integration and are strategically located in proximity to customers’ facilities. By the end of FY17 company have total installed capacity of manufacturing 15,86,406 RACs, 19,50,000 case liners and various other small components. On a cumulative basis, all plants are operating at 45-50% utilization. Amber has a dedicated R&D centre located at Rajpura facility which is equipped with a psychometric lab which is accredited by National Accreditation Board for Testing and Calibration Laboratories (NABL) with ISO/IEC 17025:2005 certification and facilities for 3D modelling, quality and product testing and a dedicated team. All manufacturing facilities, except Kala Amb (which is currently non-operational) conform to ISO 9001:2008 or ISO 9001:2015 quality management systems certification. It’s UP Unit I has ISO 14001:2004 and OHSAS 18001:2007 certifications for manufacturing of extruded and thermoformed plastic components.

Key Milestones of Amber

Year	Key Events
1990	Company was incorporated as a private limited company.
1994	The first factory at Rajpura was established
2002	Started manufacturing RAC as OEM
2003	Started Dehradun Plant for RAC manufacturing
2004	Dehradun Factory Unit - 4 established and started manufacturing of sheet metal components for captive usage
2006	Started manufacturing MWO
2008	Started Noida Ecotech Unit - added Plastic extrusion & vacuum forming in product portfolio
2008	Started manufacturing heat ex-changers for captive usage & supply as component
2009	Dehradun Factory Unit – 5 was established – to build on capacities for ODM, finished goods
2010	Kasna Unit, Kalamb Unit and Pune Unit established – started sheet metal component supplies to customers
2010	Dehradun Factory Unit – 6 was established - to build on capacities for ODM, finished goods
2012	Jhajjar Unit was established – to expand geographical presence & add new customer base
2012	Acquired PICL – a electrical motor manufacturing company
2017	Acquired IL JIN Electronics (India) Private Limited

Source: Company RHP, ACMIIL

Marquee Clients

Amber is the market leader in the Room Air Conditioner (RAC) design and manufacturing, supplying to 8 out of the 10 top RAC brands in India including Daikin, Hitachi, LG, Panasonic, Blue star, Voltas and Whirlpool. These 8 brands have over 75% of market share in India.

Amberhas built strong and long standing relationships with customers, providing them with a range of additive manufacturing solutions at their doorsteps by supplying components and RACs through OEM/ODM models. For their efficient services and products, they have received several awards from customers such as 'Best of Best Performance Award' from LG for 2015 and 2016 and 'Leadership Business Innovation Award' from Panasonic for 2015-2016.

Amber currently exports to Saudi Arabia, Oman, Sri Lanka, Nigeria and Maldives and intend to increase their footprint into others countries in Middle East, South and South-East Asia as well as Europe. Management believes that an increase in exports will also lower seasonal volatility of business leading to higher capacity utilization of manufacturing facilities.

Growing with inorganic growth

Amber is strengthening its operations with inorganic growth. They have acquired three subsidiaries till now which added new technology and products in their portfolio to serve more clients according to their requirements. Their subsidiaries are:

- **PICL (India) Private Limited:** Wholly owned subsidiary of Amber was incorporated in 1994 and is involved in the business of manufacturing various kinds of fractional horse power motors for WACs, ODUs of SACs and commercial air conditioners.
- **Appserve Appliance Private Limited:** It was incorporated in 2017 with the object of carrying out the business of manufacture, repair, maintenance, installation, assembly and routine servicing activities of all kinds of white goods i.e. RACs, washing machines, refrigerators, consumer durables and other similar equipment and components and to establish repair shops for thesame along with other related activities.
- **IL JIN Electronics (India) Private Limited:** Company was incorporated in 2001 and is currently engaged in the business of manufacturing, assembling, dealing, importing and exporting of electronic assembled printed circuit boards for home appliances and automobile products. Amber holds 70% stake in the company.

Industry growth provides ample opportunities for OEMs

The Indian RAC market volumes are expected to grow at a CAGR of 12.8% during FY17-22. Due to the current low penetration of 4%, market presents huge growth opportunity for the manufacturers. 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 Amber is well placed to benefit from the growth in domestic market.

Many RAC brand suppliers have already invested in outsourcing their manufacturing requirements to OEM/ODM players in an effort to reduce their reliance on China and imports. India is increasingly becoming a RAC export source to cater to various Middle East, South Asian and African countries. The trend is expected to continue, thus leading to expansion in domestic manufacturing capacities and increasing exports for OEMs like Amber.

Financials

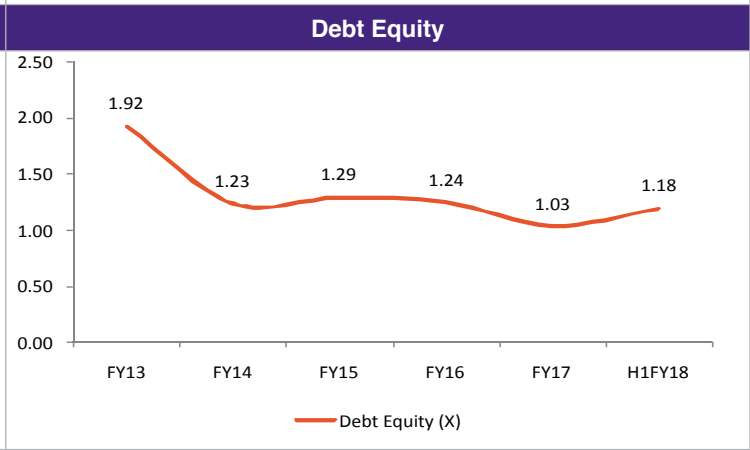
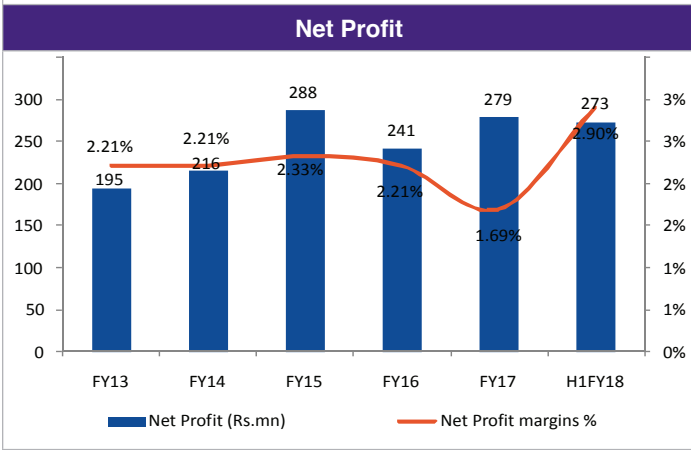
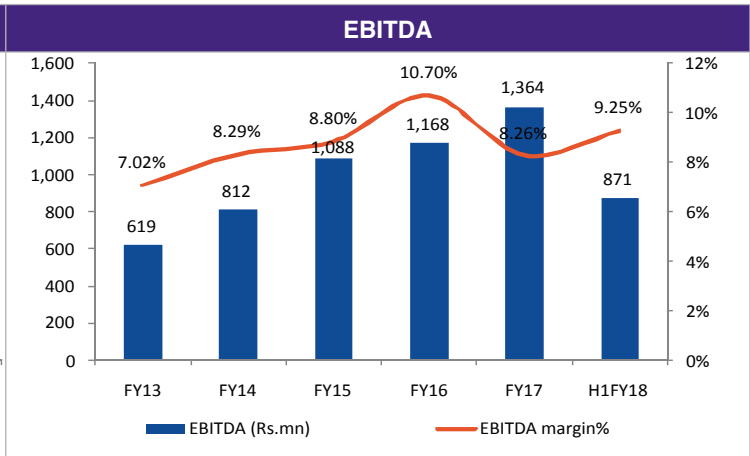
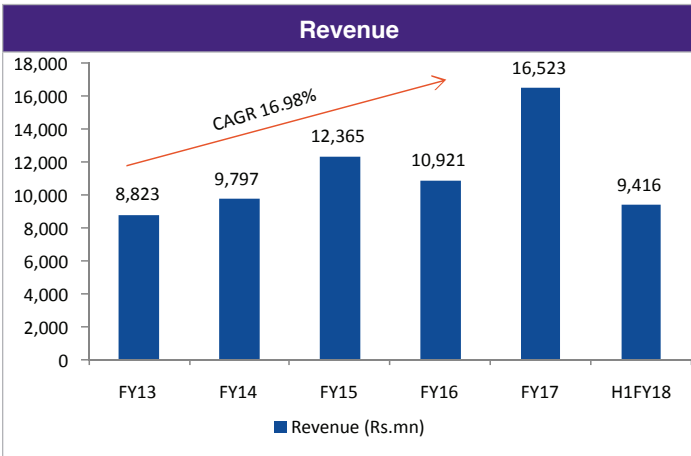
Amber's top line grew by CAGR of 16.98% during FY13-17 to Rs. 9,416 mn in FY17 backed by strong product portfolio. EBITDA and Net profits grew by CAGR of 21.84% and 9.40% respectively during the same period to Rs. 1,364 mn and Rs. 279 mn respectively. For the H1FY18, revenues were Rs. 9,416 mn with EBITDA of Rs.871mn, backed by economies of scale with EBITDA margin of 9.25%. Profits for the H1FY18 were Rs.273 mn with 2.90% profit margins. Although RAC market is not seasonal but financials of company indicate they generate 40% revenues in first half and 60% revenues in the second half of the year. For the last three fiscals they had an average EPS of Rs. 12.31 and average Return on Net Worth of 9.24%.

Risk and Concern

Dependency on top 10 customers: AIEL earns majority of revenue from its top 10 customers. Sales from top five and top 10 customers contributes 74.77% and 92.52%, respectively, of total revenue from operations and any kind of slowdown in demand from these clients might impact business adversely.

Slowdown in demand: Any downtrend in OEM/ ODM business or slowdown in the RAC industry may adversely impact the business and its financials and company generates ~70% revenues from its RAC segment.

Pricing pressure from customers: Customers often pressurize to reduce price and being a capital intensive business any cost cutting may affect profitability.



Source: Company RHP, ACMIL

Financials

Profit & Loss statement

							(Rs. millions)
Particulars	FY13	FY14	FY15	FY16	FY17	H1FY18	
REVENUE							
Revenue from operations	8,757	9,734	12,303	10,890	16,444	9,382	
Other income	66	63	62	31	79	34	
Total revenue	8,823	9,797	12,365	10,921	16,523	9,416	
COGS							
Cost of materials consumed	7,391	7,938	10,190	8,649	14,009	7,642	
Changes in inventories of FG and WIP	77	41	-56	-64	-271	182	
Total COGS	7,469	7,979	10,134	8,585	13,738	7,824	
Gross Profit	1,355	1,818	2,231	2,336	2,785	1,591	
Gross Profit margins%	15.35%	18.56%	18.04%	21.39%	16.85%	16.90%	
SG&A Expenses							
Employee benefits expenses	195	320	335	365	438	221	
Other expenses	540	686	808	803	982	499	
Total SG&A Expenses	736	1,006	1,143	1,168	1,420	720	
EBITDA	619	812	1,088	1,168	1,364	871	
EBITDA margin %	7.02%	8.29%	8.80%	10.70%	8.26%	9.25%	
Depreciation and amortisation expenses	125	184	256	309	397	229	
EBIT	495	628	832	860	967	642	
EBIT margin %	5.60%	6.41%	6.73%	7.87%	5.85%	6.82%	
Finance costs	203	323	428	532	583	267	
Profit before tax (PBT)	291	305	404	327	384	376	
PBT margin %	3.30%	3.11%	3.27%	3.00%	2.32%	3.99%	
Tax expense							
Current tax	64	68	88	80	88	80	
Deferred tax	81	70	65	62	105	102	
Minimum Alternate Tax (MAT) credit	-51	-55	-37	-55	-88	-80	
Total tax expenses	94	83	116	86	105	102	
PAT before minority shareholders	197	222	288	241	279	273	
Profit attributable to minority shareholders	-2	-6	0	0	0	0	
Net Profits	195	216	288	241	279	273	
Net Profits margin %	2.21%	2.21%	2.33%	2.21%	1.69%	2.90%	
Earnings per equity share	11.53	10.84	13.26	11.11	12.80	11.47	

Source: Company RHP, ACMIL

Balance sheet

(Rs. millions)

Particulars	FY13	FY14	FY15	FY16	FY17	H1FY18
Equity and Liabilities						
Shareholders' fund						
Share capital	179	217	217	217	238	238
Reserves and surplus	1,148	1,878	2,168	2,409	3,111	3,388
Total Shareholders' fund	1,327	2,095	2,385	2,626	3,349	3,626
Minority interest	31	37	0	0	0	0
Non current liabilities						
Long-term borrowings	1,479	1,176	1,470	1,614	2,515	1,833
Deferred tax liabilities (net)	123	193	268	329	434	537
Other long term liabilities	4	12	271	447	0.00	0.17
Long-term provisions	15	19	24	31	33	45
Total Non current liabilities	1,621	1,401	2,033	2,422	2,983	2,415
Current liabilities						
Short-term borrowings	1,072	1,397	1,596	1,652	934	2,455
Trade payables						
Dues to MESE	2	3	113	165	255	129
Due to other creditors	2,325	2,009	2,306	2,673	4,203	1,796
Other current liabilities	1,101	1,608	1,563	1,578	1,102	1,252
Short-term provisions	33	62	61	34	40	47
Total Current liabilities	4,533	5,079	5,640	6,102	6,534	5,678
Total Equity and Liabilities	7,512	8,611	10,058	11,150	12,866	11,719
ASSETS						
Non-current assets						
Property, plant and equipment	2,349	2,879	3,519	4,237	4,638	4,617
Intangible assets	141	330	337	442	598	543
Capital work-in-progress	136	522	400	158	93	121
Intangible assets under development	103	0	118	198	120	218
Goodwill (on consolidation)	277	277	326	326	326	326
Long-term loans and advances	186	197	315	433	552	685
Other non-current assets	112	53	43	19	34	5
Total Non current assets	3,304	4,257	5,058	5,814	6,361	6,515
Current assets						
Inventories	1,615	1,742	1,894	2,258	2,677	2,655
Trade receivables	1,791	1,584	2,316	2,479	3,104	1,748
Cash and bank balances	432	506	289	184	347	286
Short-term loans and advances	338	484	477	406	371	477
Other current assets	31	37	24	10	5	38
Total Current Assets	4,207	4,353	5,000	5,336	6,504	5,205
Total Assets	7,512	8,611	10,058	11,150	12,866	11,719

Source: Company RHP, ACMIIL

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