



Farsight

## MORNING FARSIGHT

Thursday, July 05, 2018

**AMBER ENTERPRISES**

**CMP:RS 1027**

**TRGT:RS 1250**

**TIME HORIZON: 1 YEAR**

Amber Enterprises, the market leader in the room air conditioners (RAC) outsourced manufacturing space in India with —over 53% market share and 12 manufacturing facilities, with clientele of Daikin, Voltas, LG, Panasonic, Hitachi, Whirlpool, Blue Star, Samsung, Carrier, Godrej etc., is looking a good buy, as FY19 will see jump in PAT, due to multiple acquisitions of recent past, lower finance cost with debt repayment from IPO proceeds and favorable industry dynamics with RAC volumes expected to increase from 4.7 million units in FY17 to 8.6 million units by FY22 and finally valuation discount to its closest peer Dixon Technologies. Company's product portfolio includes Room Air Conditioners (including window air conditioners (WAC), indoor units (IOU) and outdoor units (ODU) of split air conditioners (SAC) with specifications ranging from 0.75 ton to 2 ton), RAC Components (heat exchangers, motors and multi-flow condensers, sheet metal components, copper tubing, injection molding components) and Other Components (case liners, plastic extrusion sheets, sheet metal components etc for refrigerator, automobiles, washing machines and other consumer durables). Going ahead, due to the current low penetration of 4% versus (53% in China/ global average 30%), the Indian RAC market presents huge opportunity for players to garner larger share of the market. Viewed as a luxury product in the recent past, the sweltering and longer summers in the country have led to creation of new demand for RACs not only in the larger cities, but also in Tier 11/111 cities amid better affordability. Company is also increasing focus on export markets to UAE, Oman, Sri Lanka, Nigeria & South Africa and is looking to increase export from 5%-7% of revenue by FY21. In recent past, company has done multiple acquisitions to capture more wallet share and increase offerings in inverter RACs and consumer appliances like Microwave and Refrigerator. Company did 2 acquisitions in the printed circuit board (PCB) manufacturing space over the last 1 year viz, IL JIN Electronics (70% stake, contributed Rs 100cr of sales for Amber in FY18) and Ever Electronics (19% stake acquired in Q4 and an additional 51% stake to be acquired in the current quarter), which forms a critical part of inverter ACs. IL JIN Electronics is one of the largest PCB manufacturing companies in the space of air conditioners and white goods category. Ever Electronics (EVER) is one of the leading electronic PCB manufacturers in India and LG, LS Automotive, Powercraft Electronics, Godrej and Intangibles Labs are among its major clients. FY18 was strong year for the company with Revenue growth of 25% at Rs 2,180 cr and PAT growth of 184% at Rs 62.6 cr, with company improving its PAT margin 2.9% (Dixon Technologies 2.6%) and resulting in an EPS of Rs 19.81. Amber Enterprises is having Cash Eqv of Rs 133 cr, with total debt of Rs 105 cr making it debt free on net basis. Company is having current EV of Rs 3,200 cr and is trading at an EV/EBITDA of 16.5x on historic basis, with annual EBITDA of Rs 192 cr (EBITDA margin 8.8%), which is attractive, against Dixon Tech (EV/EBITDA 27x) with annual EBITDA of Rs 116 cr (EBITDA margin 4.1%). and is trading at 45% discount to Dixon on EV/EBITDA basis, while EV/Sales for other players are almost same at 1.2 — 1.3x. Share ruling at Rs 1,027 can move to Rs 1250 in 1 year

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**Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.**