

June 21, 2018

## Amber Enterprises India Ltd

A well 'conditioned' bet on the booming AC space

Amber Enterprises India Ltd. (Amber) is the market leader in the room air conditioners (RAC) outsourced manufacturing space in India. 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. Its growing manufacturing capabilities and scale put it in a sweet spot to capture the underpenetrated RAC market in India.

**Market leadership driven by integration and R&D:** Amber commands ~19% market share in RAC manufacturing through its 12 manufacturing facilities 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, forms 85% of revenue) in RAC mainly led by aggressive backward integration and R&D capabilities.

**Favorable industry trends:** RAC industry is growing at 10%+CAGR where ODM's share is expected to grow 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. After the recent acquisitions in the Printed Circuit Board space, it can manufacture up to 90% of an RAC barring compressor.

**Strong boost in profits and debt reduction:** The company improved its margins to 8.6% in FY2018 led by higher capacity utilization amid robust RACs' demand. Due to its recent acquisitions (~20-22% of FY2019 revenue) which have lower margins, overall margins may not expand in near term, but operating profits would see good absolute jump. Repayment of its LT debt from IPO proceeds has substantially reduce its interest cost and will boost earnings amid limited capex requirements.

**Outlook & Valuation:** We expect Amber to report consolidated revenue/PAT CAGR of 28%/51% respectively over FY2018-20E. It is currently trading at 21x FY 2020 earnings which is at 25-30% discount than its closest peer - Dixon Technologies. The recent correction has provided a very good entry point for the investors to take a bet on the booming AC space. Hence, we initiate coverage on the stock with a BUY recommendation and Target Price of ₹1272 (28x FY2020E EPS), an upside of 32% from the current levels.

### Key Financial

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>Net Sales</b>	1,089.0	1,651.9	2,128.1	2,957.5	3,489.8
% chg	-11.5	51.7	28.8	39.0	18.0
<b>Net Profit</b>	24.1	25.2	62.3	113.0	142.9
% chg	-13.5	4.5	147.4	81.4	26.4
EBITDA (%)	10.4	7.9	8.6	7.5	7.5
<b>EPS (Rs)</b>	7.7	8.0	19.8	35.9	45.4
P/E (x)	125.9	120.5	48.7	26.8	21.2
P/BV (x)	11.6	9.1	3.4	3.1	2.7
RoE (%)	9.2	7.5	7.0	11.4	12.9
RoCE (%)	14.1	13.3	13.5	15.7	17.2
EV/EBITDA	29.1	25.4	16.0	12.8	10.6
EV/Sales	3.0	2.0	1.4	1.0	0.8

 Source: Angel Research; CMP calculated at the end of 20<sup>th</sup> June 2018

## BUY

 CMP ₹965  
 Target Price ₹1272

Investment Period 12 Months

### Stock Info

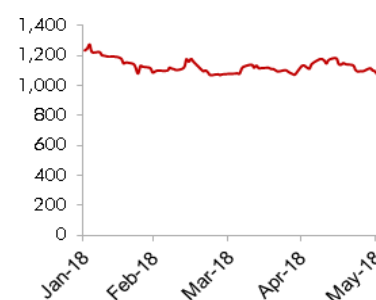
Sector	Consumer Durable
Market Cap (₹ cr)	3,035
Beta	0.7
52 Week High / Low	1327/964
Avg. Daily Volume	63,284
Face Value (₹)	10
BSE Sensex	35,547
Nifty	10,772
Reuters Code	AMBE.BO
Bloomberg Code	AMBER.IN

### Shareholding Pattern (%)

Promoters	44.0
MF / Banks / Indian FIIs	33.0
FII / NRIs / OCBs	10.8
Indian Public / Others	12.2

Abs.(%)	3m	1yr	3yr
Sensex	7.2	14.5	31.1
Amber	(12.8)		

### 3-year price chart



Source: Company, Angel Research

### Nidhi Agrawal

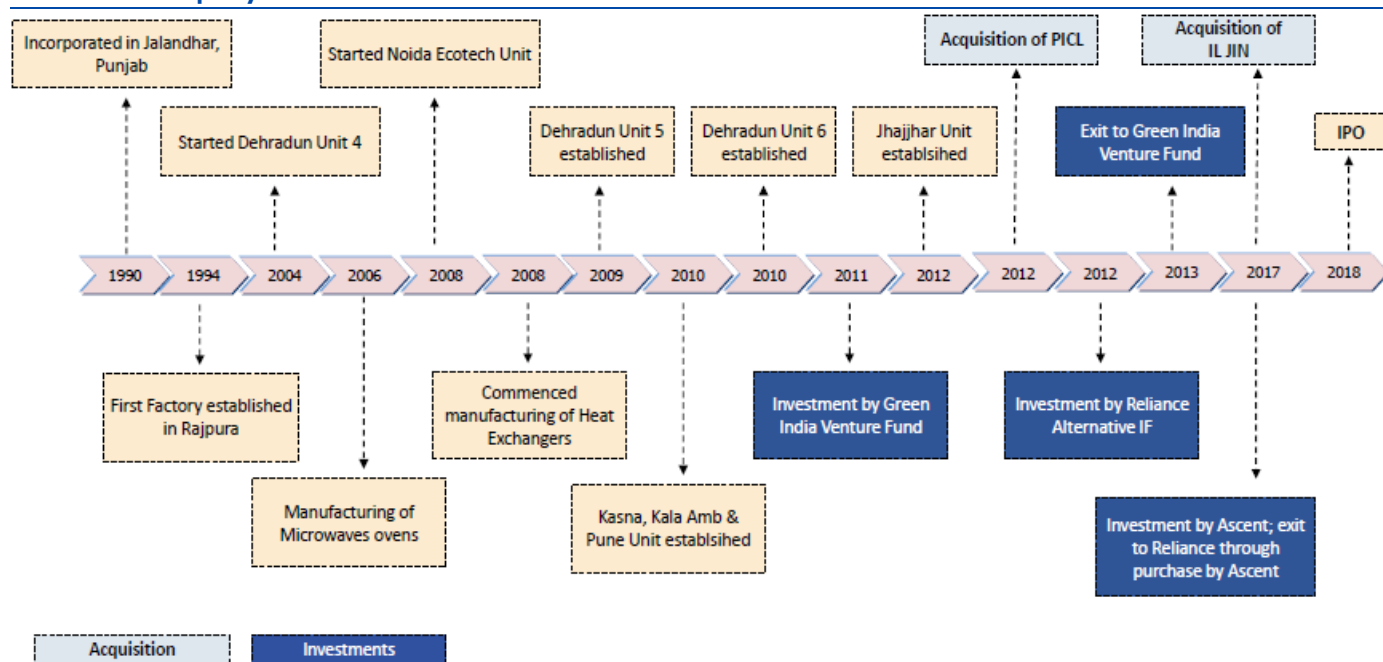
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## Company background

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 12 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). In January 2018, it came out with an IPO.

**Exhibit 1: Company timeline**



Source: Company, Angel Research

## 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.
- **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.

**Exhibit 2: Revenue break-up**

₹ Cr	FY14	FY15	FY16	FY17	FY18	CAGR
Air Conditioners	526	699	699	1252	1525	31%
Ac components	186	212	210	189	293	12%
Non AC components	262	319	179	210	310	4%
<b>Total sales - ₹ cr</b>	<b>973</b>	<b>1230</b>	<b>1089</b>	<b>1652</b>	<b>2128</b>	<b>22%</b>
<b>Total sales volume - '000</b>	<b>516</b>	<b>684</b>	<b>800</b>	<b>1514</b>	<b>1910</b>	<b>39%</b>

Source: Company, Angel Research

**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.

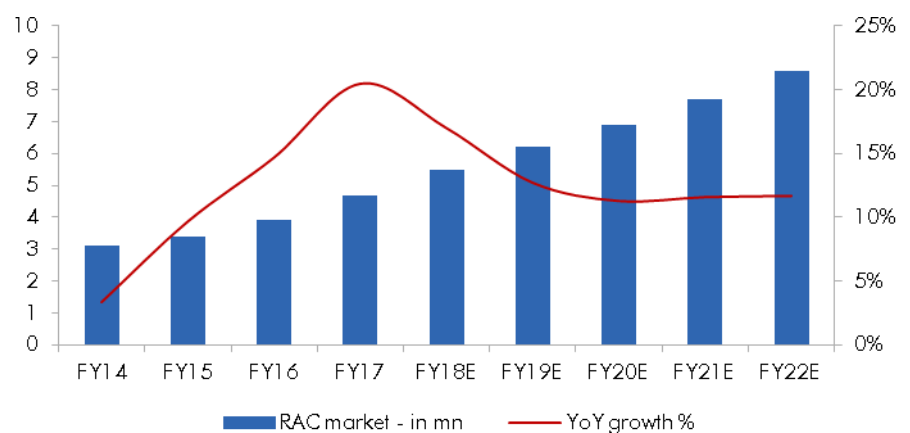
**Manoj Kumar Sehrawat** is a Nominee Director of the Company nominated by Ascent and was appointed to the Board of Company in January 12, 2017. He has 20 years of experience in financial services. He is a managing director at ADV Partners Management Pte. Limited (ADV), the manager to a sub fund of ADV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

## Investment Rationale

### Favorable industry trends

Amber is in a sweet spot, as the RAC industry is growing at 10%+CAGR. The growth of this industry is driven by the increase in disposable income, humid climate of India, urbanization and easy consumer financing. The RAC volumes are expected to increase from 4.7 million units in FY2017 to reach 8.6 million units by FY2022E.

#### Exhibit 3: ACs volume growth to remain buoyant

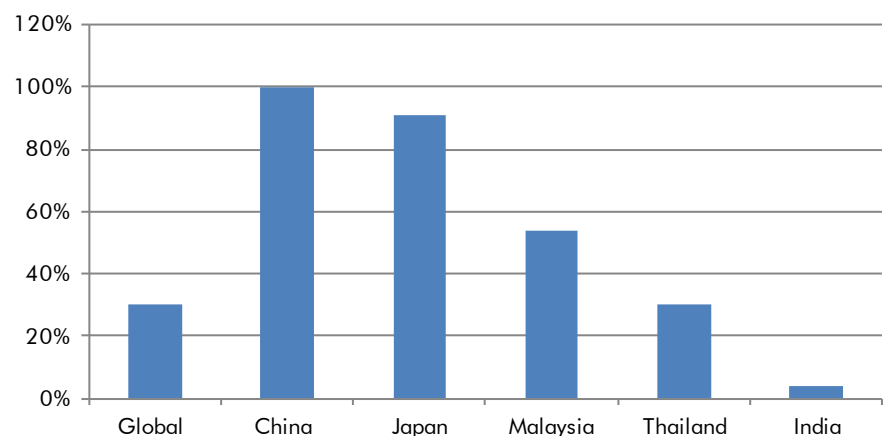


Source: Company, Frost and Sullivan

### Lower penetration in India provides huge opportunity

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 II/III cities amid better affordability.

#### Exhibit 4: RAC penetration level across countries



Source: Industry, Angel Research

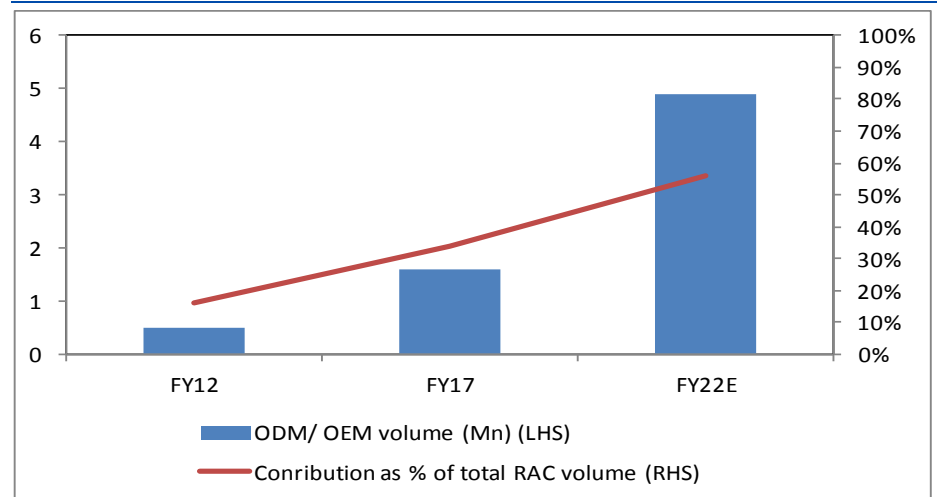
### Preference for local OEM/ODMs in India

RAC brands have established manufacturing units in India to hedge against higher cost of manufacturing in China. China has enjoyed an advantageous position in low cost manufacturing however due to issues in supply chain management, such as logistics costs, lead time, higher working capital, rising wages, etc., forced manufacturers to explore alternative locations to maintain cost. Global RAC brands now prefer India as the new manufacturing location for addressing the domestic demand and also for limited exports.

### OEM/ODM share to rise

In the RAC industry, the share of OEM/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.

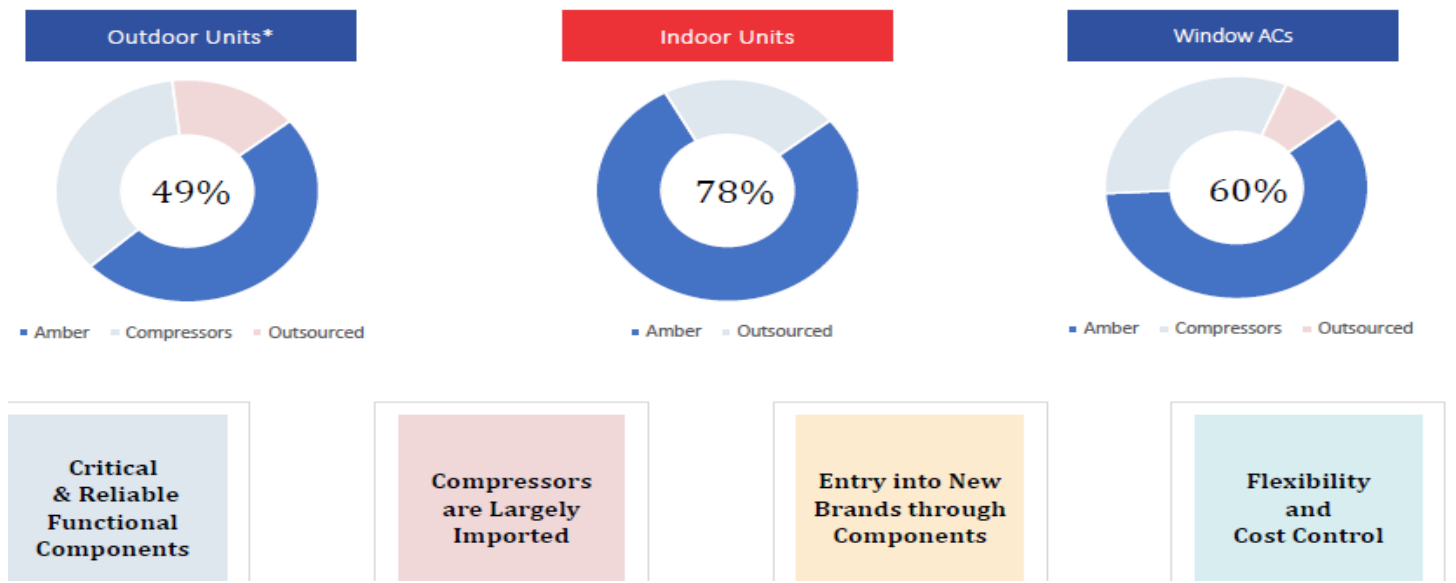
### Exhibit 5: Rising share of OEM/ODM



### Market leadership driven by integration and R&D

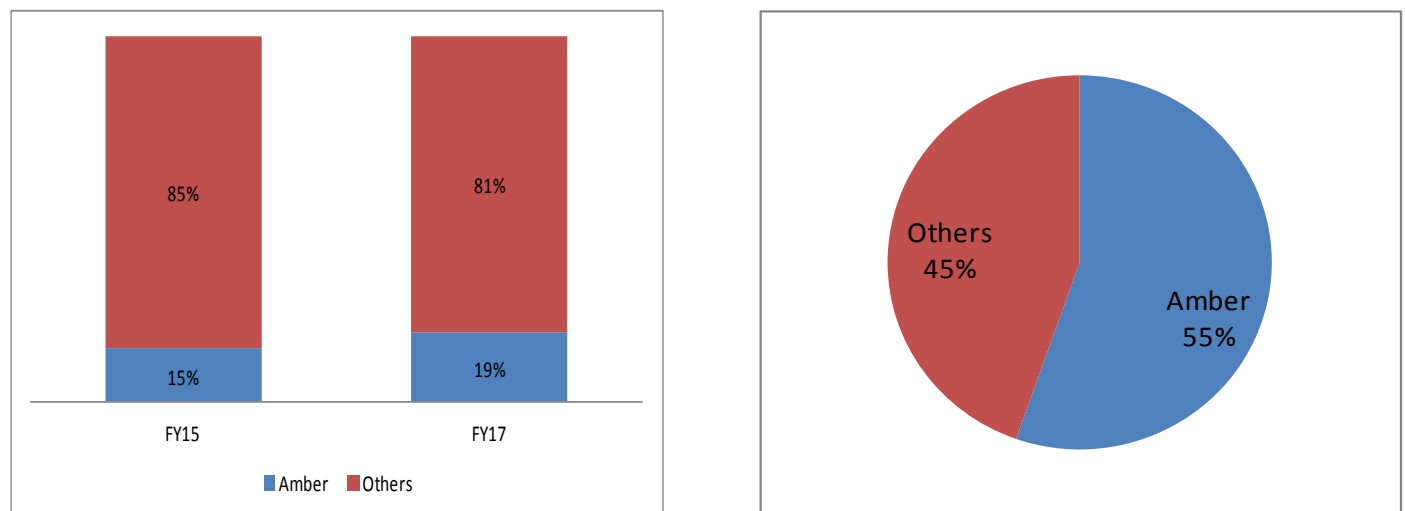
Amber commands 19% market share in Indian RAC manufacturing through its 12 manufacturing facilities strategically located across India. In a short span of nine years, it has evolved from being original equipment manufacturing (OEM) to high-margin Original Design Manufacturing (ODM) in RACs mainly led by high degree of backward integration and strong R&D capabilities. The company has been plugging via inorganic acquisitions like PICL for its fractional horse power motors capabilities in 2012 and 2 companies in FY2018.

### Exhibit 6: High degree of Backward Integration



Source: Company

### Exhibit 7: Growing share of OEM/ ODM in RAC manufacturing: Amber commands 55% in outsourced one



Source: Company, Frost and Sullivan

### Exports could also flourish

Amber has posted revenue CAGR of 19% over FY13-18 mainly led by domestic market. Now, with its proven track record and manufacturing capabilities, the company is now exploring export opportunities to UAE, Oman, SriLanka, Nigeria & South Africa. The company is looking to increase exports to form 5-7% of revenue by FY2021-22.

**Exhibit 8: Amber supplies to over 75% of the ACs market**

Top 10 RAC Players (Descends by market share)	Amber's Customers
<b>Voltas</b>	
<b>LG</b>	
<b>Daikin</b>	
<b>Hitachi</b>	
<b>Lloyd</b>	
<b>Blue Star</b>	
<b>Panasonic</b>	
<b>Samsung</b>	
<b>Carrier</b>	
<b>Godrej</b>	
<b>Others</b>	Amber supplies to Whirlpool

Source: Company, Angel Research

**Recent Acquisitions to further boost its manufacturing capabilities**

In line with its strategy to capture more wallet share and increase offerings in inverter RACs and consumer appliances like Microwave and Refrigerator, it has made 2 acquisitions in the printed circuit board (PCB) manufacturing space over the last 1 year; IL JIN Electronics and Ever Electronics. PCB forms a critical part of inverter ACs.

**IL JIN**

IL JIN Electronics was acquired for ₹54 cr for 70% stake before the IPO and is one of the largest PCB manufacturing companies in the space of air conditioners and white goods category. In FY2018, 'IL JIN' contributed Rs 100 crore to Amber's consolidated operating revenue (accounting sales for 3 month only) with a operating margin of 3.5-4%. The company expects to improve its margins by at least 100bps by FY2020.

**Ever Electronics**

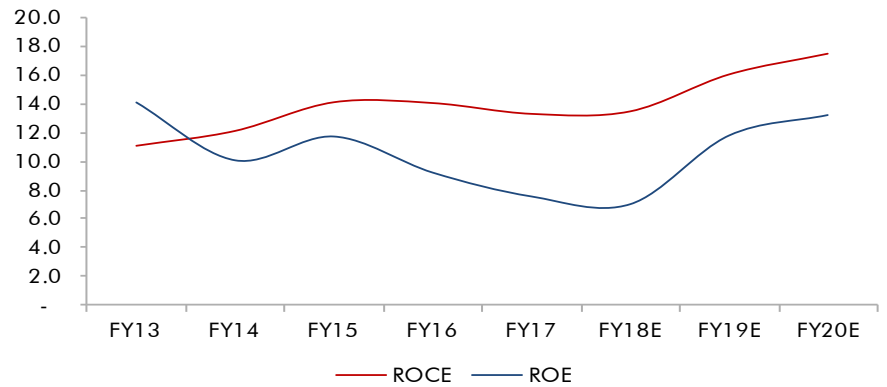
Ever Electronics (EVER) is one of the leading electronic PCB manufacturers in India. LG, LS Automotive, Powercraft Electronics, Godrej and Intangibles Labs are among its major clients. After acquiring its 19 % stake in Q4FY2018 for ₹5.6 cr, Amber is scheduled to acquire an additional 51% stake in the company by FY2019 for ₹15.5 cr. EVER has posted a revenue of ₹225 cr in FY2018 and likely to grow by 15-20% in FY2019. Margins are low at 3-3.5% which are expected to improve by operational synergies on merger.

**Strong boost in profits and debt reduction**

The company improved its margins to 8.6% in FY2018 led by higher capacity utilization amid robust RACs' demand. Due to recent acquisitions ( expected to form ~20-22% of revenue in FY2019) which have lower margins, overall margins

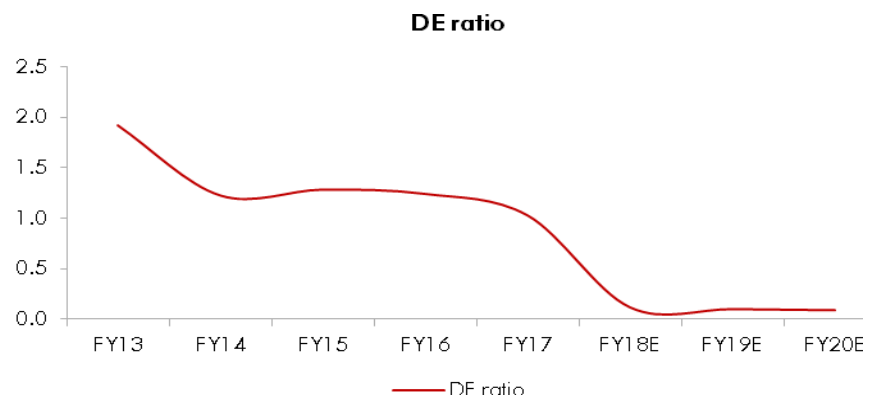
may not expand in near term, but operating profits will see good jump on an absolute basis. It currently has small working capital debt only post IPO which will substantially reduce its interest cost in FY2019. The company is not planning to undertake any major capex in the next 2-3 years. Its maintenance capex of ₹40 crore could be easily funded via internal accruals.

#### Exhibit 9: Returns ratio to improve with better utilization



Source: Company, Angel Research

#### Exhibit 10: DE ratio went down post IPO



Source: Company, Angel Research



## Outlook

Amber has reported a CAGR of 19%/ 27% in revenue/ PAT over FY2013-18 led by rising volume and improving margins. We expect it to report net revenue/PAT CAGR of 28%/51% respectively over FY2018-20E. Revenue will increase by 39% yoy in FY2019, mainly due to consolidation of its recent 2 acquisitions and a ~12% growth in standalone business. In FY2020, the revenue is estimated to increase by 18% yoy. Due to recent acquisitions ( expected to form ~20-22% of revenue in FY2019) which have lower margins, overall margins may not expand in near term, but operating profits will see good jump on an absolute basis. We are estimating a PAT margin of 4%, up from past level of 2-3%.

## Valuation

Post the recent correction, Amber is currently trading at 21x FY2020 earnings which is at ~25-30%+ discount than its closest peer - Dixon Technologies. The stock has been trading at an average of 32 forward PE in its brief trading history post IPO in January 2018. The recent correction has provided a very good entry point for the investors to take a bet on the booming AC space. Hence, we initiate coverage on the stock with a BUY recommendation and Target Price of ₹1272 (28x FY2020E EPS), an upside of 32% from the current levels.

### Exhibit 10: Peer valuation

₹ Cr	Dixon Technologies			Amber Enterprises		
	FY2018	FY2019E	FY2020E	FY2018	FY2019E	FY2020E
Revenue	2,904.5	3,590.6	4,265.9	2,128.1	2,957.5	3,489.8
Operating Profit	99.8	141.4	183.3	183.5	221.8	261.7
OPM %	3.4%	3.9%	4.3%	8.6%	7.5%	7.5%
Pre-Tax Profit	91.6	135.5	176.0	89.4	162.2	205.0
Net Income Adj	63.4	93.3	121.2	62.3	113.0	142.9
EPS, Adj+	56.2	82.4	107.0	19.8	35.9	45.4
<b>P/E</b>	<b>52.2</b>	<b>35.6</b>	<b>27.4</b>	<b>48.7</b>	<b>26.8</b>	<b>21.2</b>
Return on Equity( %)	23.7	25.7	26.8	7.0	11.4	12.9

Source: Angel Research, Bloomberg

## Key risks

### Client concentration

Amber's business is dependent on certain principal customers and the loss of or a significant reduction in their purchases could adversely affect its business. Its top five and 10 customers contributed 74.8% and 92.5% respectively to sales in FY17.

### Adverse trend in OEM/ODM

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)	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>Total operating income</b>	<b>1,089.0</b>	<b>1,651.9</b>	<b>2,128.1</b>	<b>2,957.5</b>	<b>3,489.8</b>
% chg	-11.5	51.7	28.8	39.0	18.0
<b>Total Expenditure</b>	<b>975.3</b>	<b>1,521.3</b>	<b>1,944.5</b>	<b>2,735.7</b>	<b>3,228.1</b>
Raw Material	858.5	1,371.2	1,768.8	2,513.9	2,966.4
Personnel	36.5	43.7	49.8	59.1	69.8
Others Expenses	80.3	106.5	125.9	162.7	191.9
<b>EBITDA</b>	<b>113.7</b>	<b>130.5</b>	<b>183.5</b>	<b>221.8</b>	<b>261.7</b>
% chg	10.9	14.8	40.6	20.9	18.0
(% of Net Sales)	10.4	7.9	8.6	7.5	7.5
Depreciation& Amortisation	30.9	40.1	49.0	51.2	54.3
<b>EBIT</b>	<b>82.9</b>	<b>90.4</b>	<b>134.5</b>	<b>170.6</b>	<b>207.5</b>
% chg	7.6	9.1	48.8	26.8	21.6
(% of Net Sales)	7.6	5.5	6.3	5.8	5.9
Interest & other Charges	53.2	63.5	53.8	18.8	15.0
Other Income	3.1	8.8	8.7	10.5	12.6
(% of Sales)	0.3	0.5	0.4	0.4	0.4
Extraordinary Items	-	-	-	-	-
Share in profit of Associates	-	-	-	-	-
<b>Recurring PBT</b>	<b>32.7</b>	<b>35.7</b>	<b>89.4</b>	<b>162.2</b>	<b>205.0</b>
% chg	-19.0	9.2	150.4	81.4	26.4
Tax	8.6	10.5	27.1	49.2	62.1
<b>PAT (reported)</b>	<b>24.1</b>	<b>25.2</b>	<b>62.3</b>	<b>113.0</b>	<b>142.9</b>
% chg	-13.5	4.5	147.4	81.4	26.4
(% of Net Sales)	2.2	1.5	2.9	3.8	4.1
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	<b>7.7</b>	<b>8.0</b>	<b>19.8</b>	<b>35.9</b>	<b>45.4</b>
% chg	-13.5	4.5	147.4	81.4	26.4

Source: Company, Angel Research

**Consolidated Balance Sheet**

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	21.7	23.8	31.4	31.4	31.4
Reserves & Surplus	240.9	311.1	861.3	956.7	1,077.2
<b>Shareholders' Funds</b>	<b>262.6</b>	<b>334.9</b>	<b>892.8</b>	<b>988.1</b>	<b>1,108.6</b>
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Loans</b>	<b>326.6</b>	<b>344.9</b>	<b>105.5</b>	<b>100.0</b>	<b>100.0</b>
Other Liab & Prov	80.8	46.8	64.4	89.5	105.7
<b>Total Liabilities</b>	<b>670.0</b>	<b>726.6</b>	<b>1,062.7</b>	<b>1,177.7</b>	<b>1,314.3</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	536.1	577.5	739.8	789.8	839.8
Capital Work-in-Progress	2.0	3.0	4.0	5.0	6.0
Investments	-	-	5.7	55.7	105.7
<b>Current Assets</b>	<b>533.6</b>	<b>650.4</b>	<b>964.0</b>	<b>1,237.0</b>	<b>1,438.6</b>
Inventories	225.8	267.7	395.6	486.2	573.7
Sundry Debtors	247.9	310.4	378.6	486.2	573.7
Cash	18.4	34.7	133.8	172.4	181.6
Loans & Advances	40.6	37.1	28.3	59.1	69.8
Other Assets	1.0	0.5	27.6	33.1	39.8
<b>Current liabilities</b>	<b>445.0</b>	<b>560.0</b>	<b>665.8</b>	<b>925.3</b>	<b>1,091.9</b>
<b>Net Current Assets</b>	<b>88.6</b>	<b>90.4</b>	<b>298.2</b>	<b>311.7</b>	<b>346.7</b>
Other Non Current Asset	45.3	58.6	19.1	20.5	22.2
<b>Total Assets</b>	<b>670.0</b>	<b>726.6</b>	<b>1062.7</b>	<b>1177.6</b>	<b>1314.3</b>

Source: Company, Angel Research

### Consolidated Cash Flow Statement

Y/E March (₹cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	32.7	38.4	89.4	162.2	205.0
Depreciation	30.9	39.7	49.0	51.2	54.3
Change in Working Capital	42.9	(23.3)	(67.7)	(37.8)	(84.7)
Interest / Dividend (Net)	-	-	-	-	-
Direct taxes paid	(10.5)	(9.0)	(27.1)	(49.2)	(62.1)
Others	(56.2)	(52.7)	(38.8)	(5.4)	15.8
<b>Cash Flow from Operations</b>	<b>152.2</b>	<b>98.5</b>	<b>82.4</b>	<b>131.9</b>	<b>96.6</b>
(Inc.)/ Dec. in Fixed Assets	(101.2)	(82.0)	(162.2)	(50.0)	(50.0)
(Inc.)/ Dec. in Investments	1.4	0.8	-	-	-
<b>Cash Flow from Investing</b>	<b>(83.9)</b>	<b>(89.7)</b>	<b>(162.2)</b>	<b>(50.0)</b>	<b>(50.0)</b>
Issue of Equity	-	50.0	505.3	-	-
Inc./(Dec.) in loans	150.6	46.4	(239.4)	(5.5)	-
Others	218.5	97.6	63.6	36.5	37.4
<b>Cash Flow from Financing</b>	<b>(67.9)</b>	<b>(1.2)</b>	<b>202.3</b>	<b>(42.0)</b>	<b>(37.4)</b>
Inc./(Dec.) in Cash	0.4	7.6	122.5	39.8	9.3
<b>Opening Cash balances</b>	<b>2.0</b>	<b>2.4</b>	<b>10.0</b>	<b>132.5</b>	<b>172.4</b>
<b>Closing Cash balances</b>	<b>2.4</b>	<b>10.0</b>	<b>132.5</b>	<b>172.4</b>	<b>181.6</b>

Source: Company, Angel Research

### Key Ratios

Y/E March	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	125.9	120.5	48.7	26.8	21.2
P/CEPS	28.5	25.4	12.4	7.5	6.0
P/BV	11.6	9.1	3.4	3.1	2.7
Dividend yield (%)	-	-	-	-	-
EV/Sales	3.0	2.0	1.4	1.0	0.8
EV/EBITDA	29.1	25.4	16.0	12.8	10.6
EV / Total Assets	4.9	4.6	2.8	2.4	2.1
<b>Per Share Data (₹)</b>					
EPS (fully diluted)	7.7	8.0	19.8	35.9	45.4
Cash EPS	33.9	37.9	77.9	129.3	160.1
Book Value	83.5	106.5	283.9	314.2	352.5
<b>Returns (%)</b>					
ROCE	14.1	13.3	13.5	15.7	17.2
Angel ROIC (Pre-tax)	13.7	13.9	15.9	19.5	21.8
ROE	9.2	7.5	7.0	11.4	12.9
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	2.3	2.9	3.8	4.8	5.3
Inventory / Sales (days)	76	59	68	60	60
Receivables (days)	83	69	65	60	60
Payables (days)	95	99	98	98	98
Working capital cycle (ex-cash) (days)	64	29	35	22	22

Source: Company, Angel Research

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### Disclosure of Interest Statement

### Amber Enterprises India Ltd.

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)