

Amber Enterprises India Ltd

Sidwal's acquisition to expand product portfolio

Event: Amber Enterprises' (Amber) has approved to enter into the definitive agreements for acquiring 80% stake upfront in the equity share capital of Sidwal Refrigeration Industries Private Ltd ("Sidwal"), which will include the business of Sidwal Technologies. The deal valuation are not disclosed but the management has indicated that the deal value could be worth ₹180-200 crore for 80% stake (at 5.5-6x EV/ EBITDA and 10x FY2019E earnings).

Sidwal's background - Sidwal is the leading player in the Mobile (Transportation) Air Conditioning and Refrigeration Industry. It has diversified portfolio of HVAC solutions to Indian Railways (forms 72% of Sidwal's revenue), Metro Segments, Defence (9%), Telecom (4%), Bus (9%). It also provide strong post sale support to its customers - primarily for the Railway, Metro and Bus segment.

Our take on the deal- The acquisition would expand Amber's portfolio in the HVAC space in mobile applications. The deal is likely to be funded via a mix of internal accruals and debt where the group debt level would not exceed the internal threshold limit of 1.5-1.75x EBITDA. They also assured that the deal would be EPS/ ROCE accretive as Sidwal has high growth prospects/OPM of 20% with nil LT debt and low working capital requirements.

Outlook: We remain bullish on the niche space that Amber is in and its expansion plan in the related HVAC space. Q4FY2019 results will be keenly monitored for signs of growth as the last "cooler" summer season has spoiled its M9FY2019 results. We expect a CAGR of ~21%/38% in consolidated revenue/ earnings over FY2018-20E without taking this acquisition into account (would wait for deal's fine prints). **We maintain BUY with a target price of ₹910(25x FY2020E EPS).**

Key Consolidated Financials

Y/E March (` cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Net Sales	1,089.0	1,651.9	2,128.1	2,778.0	3,125.2
% chg	-11.5	51.7	28.8	30.5	12.5
Net Profit	24.1	25.2	62.3	90.0	114.4
% chg	-13.5	4.5	147.4	44.4	27.2
EBITDA (%)	10.4	7.9	8.6	7.0	7.5
EPS (Rs)	7.7	8.0	19.8	28.6	36.4
P/E (x)	101.2	96.9	39.2	27.1	21.3
P/BV (x)	9.3	7.3	2.7	2.5	2.3
RoE (%)	9.2	7.5	7.0	9.3	10.7
RoCE (%)	14.1	13.3	13.5	13.5	15.4
EV/EBITDA	23.9	20.8	12.8	11.5	9.5
EV/Sales	2.5	1.6	1.1	0.8	0.7

Source: Company, Angel Research

BUY

CMP	₹776
Target Price	₹910
Investment Period	12 Months

Stock Info

Sector	Consumer Durable
Market Cap (₹ cr)	2,440
Beta	1.0
52 Week High / Low	1200/621
Avg. Daily Volume	12,392
Face Value (₹)	2
BSE Sensex	37,808
Nifty	11,354
Reuters Code	AMBE.BO
Bloomberg Code	AMBER.IN

Shareholding Pattern (%)

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

Abs.(%)	3m	1yr	3yr
Sensex	7.6	15.6	50.7
Amber	(16.3)	(28.9)	

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Sidwal's details

Sidwal was founded by NRI technocrat Mr. S.S. Sidhu a Mechanical Engineer from the University of Michigan in 1975. Headquartered in NCR, Sidwal operates 3 fully integrated facilities in Northern India with the capability to undertake the entire HVAC manufacturing process in-house. It is the market leader in the Railway and Metro segments with a track record of supplying 15,000+ HVAC units for mainline coaches and 2,000+ HVAC units for metro coaches. It also has a dominating market share in the defence Segment. It has an order book of ₹ 200 cr with AMC contracts. FY2019 is expected to be good with 15%+ yearly growth in revenue and a OPM of 20%+ and a PAT of over ₹ 23 crore.

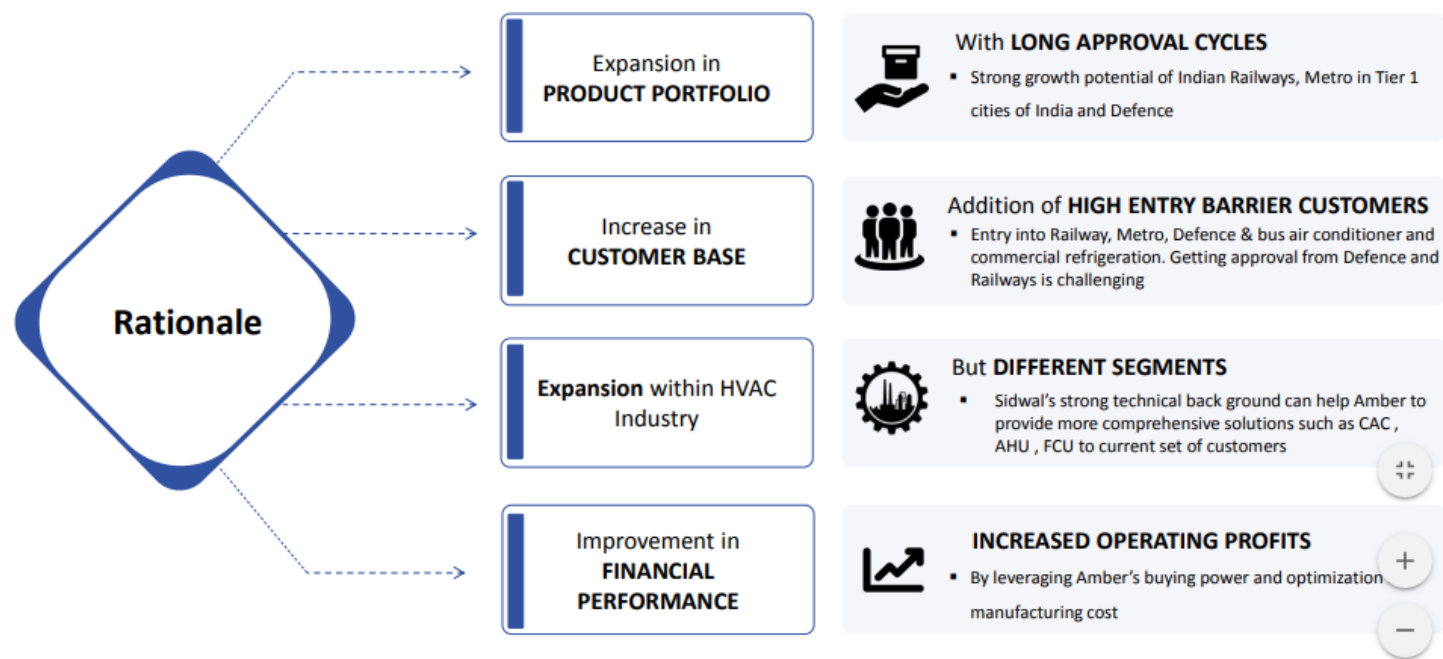
Exhibit 1: Turnover of Sidwal

	FY16	FY17	FY18	FY19E
Turnover*	116	124	165	195
YoY growth		7.0%	33.1%	18.0%

Source: Company, Angel Research

* Turnover of Sidwal Refrigeration Industries Pvt Ltd & Sidwal Technologies without eliminating intercompany transactions

Exhibit 2: How acquisition will help Amber?



Source: Company, Angel Research

Risks to our estimates

Client concentration

Amber'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

Downward trend in OEM/ODM business

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, weather advancement in technology

The markets in which company's customers compete are characterized by consumers, weather patterns 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 Profit & Loss Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Total operating income	1,089.0	1,651.9	2,128.1	2,778.0	3,125.2
% chg	-11.5	51.7	28.8	30.5	12.5
Total Expenditure	975.3	1,521.3	1,944.5	2,582.3	2,892.0
Raw Material	858.5	1,371.2	1,768.8	2,352.9	2,647.1
Personnel	36.5	43.7	49.8	65.0	73.1
Others Expenses	80.3	106.5	125.9	164.4	171.9
EBITDA	113.7	130.5	183.5	195.7	233.2
% chg	10.9	14.8	40.6	6.6	19.2
(% of Net Sales)	10.4	7.9	8.6	7.0	7.5
Depreciation & Amortisation	30.9	40.1	49.0	51.2	54.3
EBIT	82.9	90.4	134.5	144.4	178.9
% chg	7.6	9.1	48.8	7.4	23.9
(% of Net Sales)	7.6	5.5	6.3	5.2	5.7
Interest & other Charges	53.2	63.5	53.8	18.8	15.0
Other Income	3.1	8.8	8.7	7.4	6.3
(% of Sales)	0.3	0.5	0.4	0.3	0.2
Extraordinary Items	-	-	-	-	-
Share in profit of Associates	-	-	-	-	-
Recurring PBT	32.7	35.7	89.4	133.0	170.2
% chg	-19.0	9.2	150.4	48.8	28.0
Tax	8.6	10.5	27.1	41.2	52.8
PAT (reported)	24.1	25.2	62.3	90.0	114.4
% chg	-13.5	4.5	147.4	44.4	27.2
(% of Net Sales)	2.2	1.5	2.9	3.2	3.7
Basic & Fully Diluted EPS (Rs)	7.7	8.0	19.8	28.6	36.4
% chg	-13.5	4.5	147.4	44.4	27.2

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
SOURCES OF FUNDS					
Equity Share Capital	21.7	23.8	31.4	31.4	31.4
Reserves & Surplus	240.9	311.1	861.3	937.2	1,033.7
Shareholders Funds	262.6	334.9	892.8	968.7	1,065.2
Minority Interest	-	-	-	-	-
Total Loans	326.6	344.9	105.5	100.0	100.0
Other Liab & Prov	80.8	46.8	64.4	84.1	94.6
Total Liabilities	670.0	726.6	1,062.7	1,152.8	1,259.8
APPLICATION OF FUNDS					
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
Current Assets	533.6	650.4	964.0	1,156.5	1,271.1
Inventories	225.8	267.7	395.6	456.7	513.7
Sundry Debtors	247.9	310.4	378.6	456.7	513.7
Cash	18.4	34.7	133.8	154.5	141.3
Loans & Advances	40.6	37.1	28.3	55.6	62.5
Other Assets	1.0	0.5	27.6	33.1	39.8
Current liabilities	445.0	560.0	665.8	869.2	977.8
Net Current Assets	88.6	90.4	298.2	287.3	293.3
Other Non Current Asset	45.3	58.6	19.1	20.0	21.0
Total Assets	670.0	726.6	1062.7	1152.8	1259.8

Consolidated Cash Flow Statement

Y/E March (₹cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	32.7	38.4	89.4	133.0	170.2
Depreciation	30.9	39.7	49.0	51.2	54.3
Change in Working Capital	42.9	(23.3)	(67.7)	(28.4)	(74.9)
Interest / Dividend (Net)	-	-	-	-	-
Direct taxes paid	(10.5)	(9.0)	(27.1)	(41.2)	(52.8)
Others	(56.2)	(52.7)	(38.8)	4.3	27.0
Cash Flow from Operations	152.2	98.5	82.4	110.4	69.8
(Inc.)/ Dec. in Fixed Assets	(101.2)	(82.0)	(162.2)	(50.0)	(50.0)
(Inc.)/ Dec. in Investments	1.4	0.8	-	-	-
Cash Flow from Investing	(83.9)	(89.7)	(162.2)	(50.0)	(50.0)
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	32.9	32.9
Cash Flow from Financing	(67.9)	(1.2)	202.3	(38.4)	(32.9)
Inc./(Dec.) in Cash	0.4	7.6	122.5	22.0	(13.1)
Opening Cash balances	2.0	2.4	10.0	132.5	154.5
Closing Cash balances	2.4	10.0	132.5	154.5	141.3

Key Ratios - Consolidated

Y/E March	FY16	FY17	FY18	FY19E	FY20E
Valuation Ratio (x)					
P/E (on FDEPS)	101.2	96.9	39.2	27.1	21.3
P/CEPS	22.9	20.5	10.0	7.3	5.9
P/BV	9.3	7.3	2.7	2.5	2.3
Dividend yield (%)	-	-	-	-	-
EV/Sales	2.5	1.6	1.1	0.8	0.7
EV/EBITDA	23.9	20.8	12.8	11.6	9.6
EV / Total Assets	4.1	3.7	2.2	2.0	1.8
Per Share Data (₹)					
EPS (Basic)	7.7	8.0	19.8	28.6	36.4
EPS (fully diluted)	7.7	8.0	19.8	28.6	36.4
Cash EPS	33.9	37.9	77.9	106.3	131.7
Book Value	83.5	106.5	283.9	308.0	338.7
Returns (%)					
ROCE	14.1	13.3	13.5	13.5	15.4
Angel ROIC (Pre-tax)	13.7	13.9	15.9	16.6	19.1
ROE	9.2	7.5	7.0	9.3	10.7
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.3	2.9	3.8	4.5	4.7
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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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%)
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