

MARCH 26, 2019

	25-Mar	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	37,809	(0.9)	4.4	6.6
NIFTY Index	11,354	(0.9)	4.4	6.5
NSEBANK Index	29,281	(1.0)	7.8	9.6
NIFTY 500 Index	9,412	(0.9)	4.8	4.5
CNXMcap Index	17,606	(0.8)	6.0	0.1
BSESMCAP Index	14,588	(1.2)	7.1	0.8
<b>World Indices</b>				
Dow Jones	25,517	0.1	(2.1)	11.5
Nasdaq	7,638	(0.1)	1.2	16.5
FTSE	7,178	(0.4)	0.4	7.4
NIKKEI	20,977	(3.0)	(0.4)	10.6
Hangseng	28,523	(2.0)	(0.4)	11.7
Shanghai	3,043	(2.0)	3.4	21.7

Value traded (Rs cr)	25-Mar	% Chg Day	
Cash BSE	2,970		(8.3)
Cash NSE	29,886		(18.4)
Derivatives	826,876		(7.6)

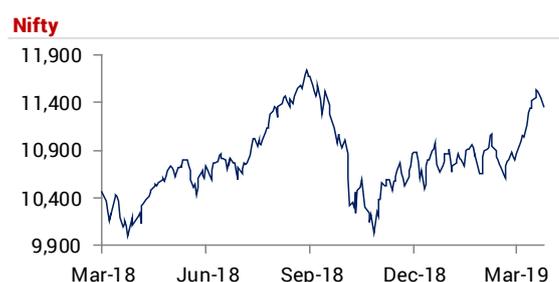
Net inflows (Rs cr)	22-Mar	MTD		YTD
FII	1,436	27,996	44,378	
Mutual Fund	(819)	(7,732)	1,602	

Nifty Gainers & Losers	Price	Chg	Vol
<b>25-Mar</b>			
<b>Gainers</b>			
Indian Oil Corp	164	4.7	23.7
ONGC	159	4.1	22.6
Coal India Ltd	237	2.3	7.5
<b>Losers</b>			
Zee Entertainment	471	(2.8)	6.6
Tata Motors	189	(2.7)	22.5
Axis Bank Ltd	721	(1.6)	10.5

Advances / Declines (BSE)					
25-Mar	A	B	T	Total	% total
Advances	118	203	38	359	100
Declines	341	770	101	1,212	338
Unchanged	2	19	14	35	10

Commodity	25-Mar	% Chg		
		1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	67.3	0.2	3.3	23.6
Gold (US\$/OZ)	1,321.8	0.6	(0.6)	4.2
Silver (US\$/OZ)	15.5	0.6	(2.4)	3.4

Debt / Forex Market	25-Mar	1 Day	1 Mth	3 Mths
Re/US\$	68.9	69.0	71.0	70.1



Source: Bloomberg

## News Highlights

- ▶ Though the Australian Bureau of Meteorology along with other global weather forecasting agencies have predicted a 60-70% chance of El Nino this year, state-run IMD said its study of global models shows that there is little chance of a 'strong' El Nino in 2019. (BS)
- ▶ The SEBI has asked bourses to block the accounts of foreign portfolio investors that haven't submitted the names of beneficial owners to custodians. Top investors based in the US and Europe such as Pacific Investment Management Co, which manages assets worth \$1.66 trn globally, are said to be among those that hadn't provided details by the March 20 deadline. (ET)
- ▶ The Congress announced it will transfer Rs6,000 a month in the bank accounts of 50 mn families comprising the poorest of the poor if it comes to power, in an effort to turn the focus back on economic issues ahead of next month's general elections. Party says scheme will cost 1.5% of GDP, but will remonetise economy in long run. (ET)
- ▶ **Kalpataru Power Transmission** has agreed to acquire 85% stake in Swedish power solutions and systems company Linjemontage i Grastorp for an enterprise value of US\$24 mn. (ET)
- ▶ The government filed an application with the National Company Law Tribunal, seeking immunity for the newly-appointed directors of the subsidiaries of the crippled **IL&FS group** from any future adverse outcomes. (BS)
- ▶ Naresh Goyal's reign at **Jet Airways**, ended as he stepped down as chairman of the board and transferred control to the lenders. The consortium of lenders, led by the **SBI**, will now own a 50% stake in the airline, while Goyal's stake would be halved to 25.5%. Etihad Airways would shed its shareholding to 12% from 24% earlier. (BS)
- ▶ The retail unit of Reliance Industries has acquired mid segment menswear brand John Players from **ITC**. This will add Rs3.50 bn to Reliance Retail's value fashion business carried out through the Reliance Trends and Ajio.com. (ET)
- ▶ **DLF**, announced the launch of a Qualified Institutional Placement (QIP) programme to raise Rs 31.75 bn. This is part of an earlier decision to cut its then massive debt, of Rs 285 bn only two years earlier. With the latest step, the aim is to bring this down to Rs 16 bn. (BS)
- ▶ The Department of Telecom is scrutinising the spectrum-sharing deal between **Reliance Communications** and Reliance Jio Infocomm, after the company defaulted on a payment of Rs210 mn towards instalment for spectrum in the Mumbai circle earlier this month. (ET)
- ▶ **Raymond** is venturing into the real estate development business and has started a new division Raymond Realty to drive its growth plans in this segment. (ET)
- ▶ **Tata Power** said its arm Coastal Gujarat Power inked a share sale pact to sell its 100% stake in Energy Eastern to Trust Energy Resources for US\$10.19 mn (ET)
- ▶ PepsiCo India's bottling partner **Varun Beverages** said it has received nod from the Competition Commission of India for its proposal to acquire franchise rights of the foods and snacks major in southern and western India. (ET)

## What's Inside

- ▶ **Event Update:** Amber Enterprises Ltd. (AEL)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI = Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

## Event Update

### Stock Details

Market cap (Rs mn)	:	24275
52-wk Hi/Lo (Rs)	:	1202 / 621
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	30,818
Shares o/s (mn)	:	31

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	21,281	25,009	29,632
Growth (%)	29.4	17.5	18.5
EBITDA	1,835	1,911	2,482
EBITDA margin (%)	8.6	7.6	8.4
PAT	623	912	1,306
EPS	19.8	29.1	41.6
EPS Growth (%)	123	46	43
BV (Rs/share)	284.3	313.4	355.0
Dividend/share (Rs)	0.0	0.0	0.0
ROE (%)	9.9	9.7	12.4
ROCE (%)	16.0	13.4	16.9
P/E (x)	34.9	23.8	16.6
EV/EBITDA (x)	15.6	15.4	11.8
P/BV (x)	2.4	2.2	1.9

Source: Kotak Securities – Private Client Research

### Shareholding Pattern (%)

(%)	Dec-18	Sep-18	Jun-18
Promoters	44.0	44.0	50.5
FII	10.7	10.7	1.6
DII	8.1	7.7	8.0
Others	37.2	37.6	40.0

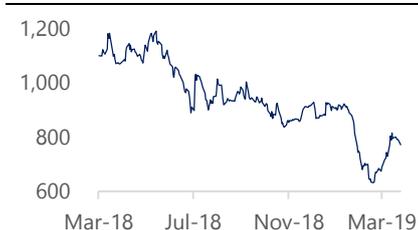
Source: Bloomberg

### Price Performance (%)

(%)	1M	3M	6M
Amber Enterprises	12.7	(16.2)	(17.0)
Nifty	4.4	6.5	2.6

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

## AMBER ENTERPRISES LTD (AEL)

PRICE RS.773

TARGET RS.946

BUY

Amber Enterprises has approved the acquisition of Sidwal Refrigeration Industries Pvt Ltd, which will include Sidwal Technologies (Source: BSE). The transaction to be completed on or before 30th April 2019.

### Key Highlights

- Sidwal Refrigeration Industries is the market leader with ~ 50% market share in the railway and metro segments and market share of ~ 80% in the Defence Segment.
- The company has no long term debt and minimal short term debt (Rs 60-70 mn) and earns ROCE of 40%.
- The acquisition gives access to products with strong growth potential and long product acceptance cycle (typically of 6-7 years).
- The acquisition has high return ratios and is EPS accretive from the start.

### Valuation and Outlook

In terms of valuation, the stock is trading at 26.6x and 18.6x FY19 and FY20 earnings (We have not incorporated the impact of the acquisition in the forecast numbers as we await acquisition cost details)

We see the company as a good play on India's fast-growing RAC industry. AEL enjoys the highest two year earnings cagr among peer group. ROCE has been moderate due to capex in past years in building capacities, which are yet to be optimally utilized. With sustained demand trends and modest capex, we see asset turnover to rise in coming years leading to enhanced ROE/ROCE. We value the stock at 23x Consol EPS of FY20E. Ascribe price target of Rs 946 (Unchanged).

### Event Update

#### Approval for Acquisition of Sidwal Refrigeration Industries Pvt Ltd

AEL has approved the acquisition of Sidwal Refrigeration Industries Pvt Ltd, which will include Sidwal Technologies on or before 30th April 2019. However, before the acquisition by Amber Enterprises, the two companies will be merged.

Founded in 1975, the Sidwal Group has emerged as a leading player in the Mobile (Transportation) Air Conditioning and Refrigeration Industry.

Headquartered in NCR, it operates 3 fully integrated facilities in Northern India with the capability to undertake the entire HVAC manufacturing process in-house.

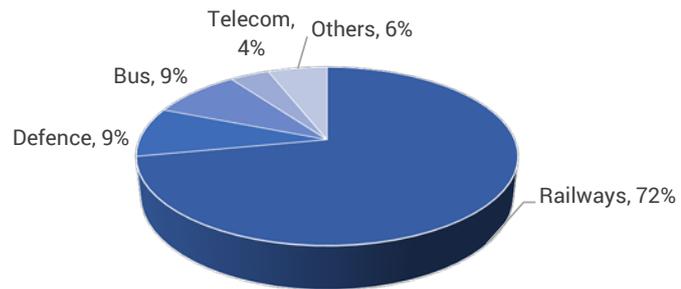
The company has a diversified portfolio of HVAC solutions to Indian Railways, Metro Segments, Defence and Air Conditioners for Telecom, Bus and Commercial Refrigeration segment.

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### Revenue mix of Sidwal (%)



Source: Company

The company is a 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 and also has a dominating market share in the Defence Segment.

Its strong In-House Research and Development capabilities have been leveraged to develop innovative product solutions for customers across segments.

### Financials of Sidwal Refrigeration Industries

Sidwal Refrigeration Industries (SRI) has grown at a fast pace in the past three years. The company recorded revenue growth of 7% and 33% in FY17 and FY18 respectively. In addition to this, the company had EBITDA and PAT margins of 20% and 12% plus.

The company has an order book of Rs 2.0 bn, along with the OMC contracts.

Moreover, the company has no long term debt and minimal short term debt (Rs 60-70 mn). ROCE of 40%.

In FY19E, the company is expected to generate revenue of ~Rs.1900-1950 mn in FY19 and EBITDA margin 21%.

### Financials of Sidwal Refrigeration

(Rs mn)	FY16	FY17	FY18
Revenue	1159	1241	1652
Growth %		7.1	33.1

Source: Company

### Rationale of acquisition

Sidwal Refrigeration Industries is the market leader with ~ 50% market share in the railway and metro segments and market share of ~ 80% in the Defence Segment.

The company has a long standing clientele with strong order book of Rs 2.0 bn & AMC contracts which give revenue visibility.

The acquisition gives access to products with strong growth potential and long product acceptance cycle (typically of 6-7 years).

The acquisition has high return ratios and is EPS accretive from the start.

The demand for Rail and Metro AC coaches is growing at a fast rate. This acquisition enables the company to participate in this growth opportunity. Rail AC coach manufacturing has grown from ~ 800 units in 2013 to 5000 currently. The government has plans to increase AC coach manufacturing to 10000 units pa in the medium term.

The number of AC bus manufacturing stands at 12000-13000 pa, which is a significant demand driver for SRI.

The rationale for sale of the company by the promoters is that the founder promoter is 81 years old and has two sons. One of them is in the US in medical field and the other son is engaged in Water Cooler and Cold Room business. The existing promoters don't have the requisite band width to run the company despite the high return ratios and growth potential.

### **Reiterate BUY**

In terms of valuation, the stock is trading at 26.6x and 18.6x FY19 and FY20 earnings (We have not incorporated the impact of the acquisition in the forecast numbers as we await acquisition cost details)

We see the company as a very good play on India's fast-growing RAC industry. AEL enjoys the highest two year earnings cagr among peer group. ROCE has been moderate due to capex in past years in building capacities, which are yet to be optimally utilized. With sustained demand trends and modest capex, we see asset turnover to rise in coming years leading to enhanced ROE/ROCE. We value the stock at 23x Consol EPS of FY20E. Ascribe price target of Rs 946 (Unchanged).

### **Company background**

Amber Enterprises Ltd was incorporated as Amber Enterprises India Private Limited and set up its first factory in Rajpura, Punjab, which commenced operations in 1994. Since then, the company has today grown to 10 manufacturing facilities across seven locations in India. The company's manufacturing facilities have a high degree of backward integration and are strategically located in proximity to our customers' requirements. The company's key customers include leading RAC brands such as Daikin, Hitachi, LG, Panasonic, Voltas and Whirlpool. Its customers commanded around 75% share in the Indian RAC market in Fiscal 2017.

## FINANCIALS: CONSOLIDATED

### Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>16,444</b>	<b>21,281</b>	<b>25,009</b>	<b>29,632</b>
% change yoy	51.0	29.4	17.5	18.5
<b>EBITDA</b>	<b>1,286</b>	<b>1,835</b>	<b>1,911</b>	<b>2,482</b>
% change yoy	(44.2)	42.7	4.1	29.9
Depreciation	397	490	592	648
<b>EBIT</b>	<b>889</b>	<b>1,345</b>	<b>1,319</b>	<b>1,834</b>
% change yoy	(61.4)	51.4	(1.9)	39.0
Net Interest	583	538	116	78
Other Income	79	87	100	110
Earnings Before Tax	384	894	1,304	1,866
% change yoy	(83.3)	132.8	45.8	43.1
Tax	105	271	391	560
as % of EBT	27.3	30.3	30.0	30.0
Net Income adj	279	623	912	1,306
% change yoy	15.8	123.3	46.4	43.1
Exceptional items	0.0	0.0	0.0	0.0
<b>Reported Net Income</b>	<b>279</b>	<b>623</b>	<b>912</b>	<b>1,306</b>
Shares outstanding (m)	31.4	31.4	31.4	31.4
<b>EPS (Rs)</b>	<b>8.9</b>	<b>19.8</b>	<b>29.1</b>	<b>41.6</b>
DPS (Rs)	1.6	0.0	0.0	0.0
CEPS	19.2	33.5	41.8	51.0

Source: Company, Kotak Securities – Private Client Research

### Cash Flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
PBDIT	1,286	1,835	1,911	2,482
Tax and adjustments	358	(1,640)	(391)	(560)
Cash flow from operations	1,643	195	1,520	1,922
Net Change in Working Capital	(443)	(104)	(1,539)	(1,038)
<b>Net Cash from Operations</b>	<b>1,200</b>	<b>92</b>	<b>(19)</b>	<b>884</b>
Capital Expenditure	(820)	(734)	(600)	(900)
Cash from investing	(127)	80	100	110
<b>Net Cash from Investing</b>	<b>(946)</b>	<b>(654)</b>	<b>(500)</b>	<b>(790)</b>
Interest paid	(583)	(538)	(116)	(78)
Issue of Shares	500	4,776	-	-
Dividends Paid	(60)	-	-	-
Debt Raised	57	(2,689)	(455)	-
<b>Net cash from financing</b>	<b>(87)</b>	<b>1,549</b>	<b>(571)</b>	<b>(78)</b>
Net change in cash	167	986	(1,090)	16
Free cash flow	380	(643)	(619)	(16)
cash at end	352	1,339	248	264

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	352	1,339	248	264
Accounts receivable	3,101	3,786	5,300	6,254
Stocks	2,685	3,956	4,669	5,509
Loans and Advances	140	283	283	283
Others	233	276	276	276
<b>Current Assets</b>	<b>6,511</b>	<b>9,640</b>	<b>10,776</b>	<b>12,586</b>
LT investments	108	144	144	144
Net fixed assets	4,629	5,629	5,637	5,890
Intangible assets	1,059	1,674	1,674	1,674
Deferred tax assets	2	-	-	-
CWIP	93	95	95	95
Other non current assets	105	104	104	104
<b>Total Assets</b>	<b>12,507</b>	<b>17,285</b>	<b>18,430</b>	<b>20,493</b>
Payables	4,979	6,874	7,562	8,318
Provisions	31	9	9	9
<b>Current liabilities</b>	<b>5,010</b>	<b>6,884</b>	<b>7,571</b>	<b>8,327</b>
LT debt	3,741	1,055	600	600
Other liabilities(deferred tax+long term provisions)	129	419	419	419
Equity & reserves	3,627	8,928	9,840	11,146
<b>Total Liabilities</b>	<b>12,507</b>	<b>17,285</b>	<b>18,430</b>	<b>20,493</b>
BVPS (Rs)	115.5	284.3	313.4	355.0

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	7.8	8.6	7.6	8.4
EBIT margin (%)	5.4	6.3	5.3	6.2
Net profit margin (%)	1.7	2.9	3.6	4.4
Adjusted EPS growth (%)	15.8	123.3	46.4	43.1
Receivables (days)	68.4	63.7	72.0	70.8
Inventory (days)	57.6	62.2	70.3	69.1
Sales / Net Fixed Assets (x)	3.6	3.8	4.4	5.0
ROE (%)	8.9	9.9	9.7	12.4
ROCE (%)	17.4	16.0	13.4	16.9
EV/ Sales	2.0	1.3	1.2	1.0
EV/EBITDA	25.2	15.6	15.4	11.8
Price to earnings (P/E)	77.9	34.9	23.8	16.6
Price to book value (P/B)	6.0	2.4	2.2	1.9
Price to cash earnings	36.0	20.7	16.5	13.6

Source: Company, Kotak Securities – Private Client Research

## RATING SCALE

### Definitions of ratings

<b>BUY</b>	–	We expect the stock to deliver more than 15% returns over the next 12 months
<b>ADD</b>	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
<b>REDUCE</b>	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
<b>SELL</b>	–	We expect the stock to deliver < -5% returns over the next 12 months
<b>NR</b>	–	<b>Not Rated.</b> Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
<b>SUBSCRIBE</b>	–	We advise investor to subscribe to the IPO.
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<b>NA</b>	–	<b>Not Available or Not Applicable.</b> The information is not available for display or is not applicable
<b>NM</b>	–	<b>Not Meaningful.</b> The information is not meaningful and is therefore excluded.
<b>NOTE</b>	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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