Amber Enterprises India Limited

Issue Snapshot:

Issue Open: Jan 17 – Jan 19, 2018

Price Band: Rs. 855 – 859
(Employee Discount of Rs 85 per share)

Issue Size: *6,984,866 Equity Shares (Including Fresh issue of *5,529,686 eq sh + Offer for sale of 1,455,180 eq sh)

Offer Size: Rs.597.20 crs – 600.00 crs

QIB	Upto 50% eq sh
Retail	atleast 35% eq sh
Non Institutional	atleast 15% eq sh
Employee Reservation	50,000 eq sh

Face Value: Rs 10

Book value: Rs 152.30 (Sep 30, 2017)

Bid size: - 17 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 25.91 cr
Post issue Equity:	Rs. 31.45 cr*

Listing: BSE & NSE

Book Running Lead Manager: Edelweiss Financial Services Limited, IDFC Bank Limited, SBI Capital Markets Limited and BNP Paribas

Registrar to issue: Karvy Computershare Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	*Post issue %
Promoter and Promoter Group	59.02	44.02
Public & Others	40.98	55.98
Total	**100.0**	**100.0**

Source for this Note: RHP
* = Assuming issue subscribed at the higher band

Background & Operations:

Amber Enterprises India Ltd (AEIL) is a market leader in the Room Air Conditioner(RAC) Original equipment manufacturer (OEM)/ Original design manufacturer (ODM) industry in India with a market share of 55.4% in terms of volume in Fiscal 2017 (Source: F&S Report). It is a one-stop solutions provider for the major brands in the RAC industry and currently serve eight out of the 10 top RAC brands in India (Source: F&S Report). It has a diversified product portfolio as set out below:

RACs: It design and manufacture complete RACs including window air conditioners ('WACs') and 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. It also design and manufacture Inverter RACs on ranging from 1 ton to 2 ton.

RAC Components: It manufacture critical and reliability functional components of RACs such as heat exchangers, motors, inverter and non-inverter printed circuit boards and multi-flow condensers. It also manufacture other RAC components such as sheet metal components, copper tubing and injection molding components.

Other Components: AEIL manufactures 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.

AEIL's key customers includes leading RAC brands such as Daikin, Hitachi, LG, Panasonic, Voltas and Whirlpool. Its customers command around 75% share in the Indian RAC market in Fiscal 2017 (Source: F&S Report). It has built strong and longstanding relationships with its customers by aligning its offerings with their business needs and provides them with a range of additive manufacturing solutions at their doorsteps by supplying them components and RACs through OEM/ODM models. AEIL is focused on consistently upgrading the technology used in its products as well as the processes used in manufacturing them through its research and development ('R&D') efforts.

From a single factory in Rajpura, Punjab that commenced operations in 1994, AEIL has today grown to 11 manufacturing facilities across seven locations in India. Its manufacturing facilities has a high degree of backward integration and is strategically located in proximity to its customer's facilities. Its Promoters, Jasbir Singh and Daljit Singh, are experienced in the RAC and components manufacturing sector and its key management persons include experts from the industry with wide experience. As on November 30, 2017, AEIL had 1,152 full-time employees and 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 I, L.P. through their investment entity Ascent)

Objects of Issue:

The Offer comprises a Fresh Issue by AEIL and an Offer for Sale by the Promoter Selling Shareholders.

The Offer for Sale

The Promoter Selling Shareholders will be entitled to the proceeds of the Offer for Sale of their respective portion of the Equity Shares after deducting their portion of the Offer related expenses & relevant taxes thereon. AEIL will not receive any proceeds from the Offer for Sale.

The Fresh Issue
AEIL intends to utilize the Net Offer Proceeds from the Fresh Issue towards the following objects

- Prepayment or repayment of all or a portion of certain borrowings availed by the Company; and
- General corporate purposes.

Requirements of Funds **Rs in million**

Particulars	Amount
Prepayment or repayment of all or a portion of certain borrowings availed by the Company	4000.00
General corporate purposes	*
Total	*

Competitive Strengths

Market leadership in the RAC OEM/ODM industry in India*:* AEIL is a market leader in the RAC OEM/ODM industry in India with a market share of 55.4% in terms of volume in Fiscal 2017. Further, its share of the overall RAC market in India in terms of volumes has grown from 14.7% in Fiscal 2015 to 19.1% in Fiscal 2017 (Source: F&S Report). Over the years, it has demonstrated the ability and expertise in manufacturing RACs and components that has enabled to become a trusted solutions provider to major RAC brands operating in India. AEIL has 11 manufacturing facilities with a total installed capacity as on March 31, 2017 to manufacture up to 1.59 million ODUs, 1.37 million IDUs and 0.59 million WACs annually. Its leadership position is owed to experience in the development and manufacturing of RACs and components and its ability to excel in measurable quality, cost, delivery and technology. Further, it has the capability to develop, design and manufacture models of RACs across energy ratings specified by the Bureau of Energy Efficiency, Ministry of Power, GoI (“BEE”) and by using various types of refrigerant including green refrigerants. IT also develop and manufacture complete WAC and SAC kits and components according to the designs and specifications required by the customers.

One stop solutions provider for the RAC industry with high degree of backward integration*:* With AEIL’s experience, product development expertise and capabilities in the manufacturing of RACs and components, it has become a one-stop solutions provider in India for the RAC industry. In addition to designing and manufacturing complete WAC, IDUs and ODUs, it offers its customers manufacturing solutions ranging from critical components such as heat exchangers, multi-flow condensers and motors to non-critical components such as sheet metal and injection molding. AEIL has the capacity to offer product development and manufacturing solutions from designing, tooling and validating to final assembling and testing. Most of its operations are backward-integrated and the processes are carried out inhouse. This backward integration gives the flexibility to control manufacturing processes and reduces dependence on external suppliers. This helps to make the company a consistent and reliable OEM/ODM supplier. Its backward integrated capability to manufacture most of the critical components to be used in its manufacturing chain makes it uniquely competitive in the RAC manufacturing industry in India.

Strong customer relationships with the majority of leading RAC brands in India: AEIL has strong and established relationships with its customers, which includes eight out of the 10 top RAC brands in India. Its key customers include leading RAC brands such as Daikin, Hitachi, LG, Panasonic, Voltas and Whirlpool. Its customers command around 75% share in the Indian RAC market. Majority of its top 10 customers has been associated with it for more than five years and these long term relationships has enabled to understand and cater to diverse requirements of such customers and to develop new products with and for these customers. It has gained the confidence of its customers by initially supplying certain components to its customers, and then moving to reliability functional components and eventually to complete RACs. AEIL’s established relationships with its existing customers also presents with cross selling opportunity. While maintaining and strengthening relationships with existing customers, over the last three years the company has also been successful in acquiring large MNC customers such as Daikin and Hitachi. In addition, locating its manufacturing facilities near customer’s production centers reduces logistical and operating costs, allowing it to produce cost-competitive products for its customers. Given its experience in supplying components to the majority of leading international and domestic RAC brands in India, AEIL is well positioned to seek new clients in India and across the globe.

R&D and product design capabilities leading to high proportion of ODM business: AEIL place strong emphasis on research and development to enhance product range and improve manufacturing processes, which has been a key pillar of its growth. The company has developed strong product design capabilities, which allows to provide customised solutions to its customers and service them more effectively and in a timely manner. Leveraging on the experience and knowledge derived from manufacturing its products, AEIL has set-up a dedicated R&D centre located in Rajpura, which is approved by the Department of Scientific and Industrial Research, Ministry of Science and Technology, GoI (“DSIR”). The R&D team has the capabilities to conceptualize, design, verify and develop various designs received from customers and successfully convert such designs into deliverable products. The R&D team also aims to provide solutions to improve manufacturing efficiency on its existing products, reduce production costs and also assists customers in designing RACs and components by providing design and engineering support. The company has successfully designed and developed various components and RAC models, including Inverter RACs. The technological advancements and frequent design changes in the RAC industry in India necessitate innovation and its ODM service enables RAC brands to focus on their core competencies such as product differentiation, marketing and distribution. RAC brand's focus on such factors create a market opportunity for ODM services and new entrants in the RAC industry finds ODM an attractive option to achieve faster market penetration, while its ODM capabilities differentiate it from contract manufacturers and helps to develop strong partnerships with RAC brands.

Track record of financial performance*:* AEIL has demonstrated strong financial performance in the recent years. Its revenue from operations has grown at a CAGR of 19.1% which is higher than the industry average of listed consumer durables brands of 11.7% for the period from Fiscal 2014 to Fiscal 2017. Further, its EBITDA margins of 8.3% for Fiscal 2017 was in line with the average of EBITDA margin of listed consumer durables brands for Fiscal 2017. While AEIL has grown quickly in recent years, it has managed to deleverage its balance sheet and improve credit rating in the process. Its debt to equity ratio for Fiscal 2015, Fiscal 2016 and Fiscal 2017 was 1.4, 1.3 and 1.0, respectively. Financial stability and positive cash flow from operations position AEIL well to meet the present and future requirement of its customers.

Economies of Scale*:* AEIL's multiple manufacturing locations allows optimal utilisation of facilities and enable it to distribute manufacturing across them. This helps to ease the pressure of seasonality and simultaneous demand schedules of multiple customers. Its scale provides with greater resources to support its fixed costs, such as R&D expenses, and permits the use of shared services to eliminate duplicative business functions and administrative expenses. This also helps AEIL to compete with imports from countries such as China as it is able to make more efficient deliveries to its customers. The large scale of production has also strengthened its relationship with raw material suppliers and provided better insight into the markets for procuring material. AEIL has a centralised system across manufacturing facilities for procurement of raw material, ensuring cost efficiency and timely delivery of supplies. This results in reducing the overall cost of production.

Culture of innovation and highly experienced management*:* AEIL is led by a management team and staffed with employees who has significant experience in industry. Its Chairman and CEO, has been involved in the RAC, consumer durables and component industries for over 13 years and has played a pivotal role in innovation, success and growth. Company's Key Management Personnel are experienced in the RAC and component industry and has acted in various capacities in their careers. It has remained focused towards development of human resources by carefully planning and executing recruitment, training and retention of a highly skilled employee base. AEIL undertakes various shop floor and staff training programs and initiatives to educate and create awareness about safety and efficiency, and to enhance skill, among its staff. It has also opened an in-house training center in Noida and has a dedicated innovation team member at every facility. This, coupled with continuous on-site learning and training programmes, has helped AEIL to develop and adopt new technologies, maintain high productivity and achieve faster product development cycle. It also instituted a quarterly evaluation and award system to motivate its employees and has awards including for best employees and best productivity area.

Business Strategy:

Expansion of existing product portfolio with a focus on ODM: With AEIL's R&D and innovation capabilities backed by an in-house tool room, it has successfully designed and developed various components and RAC models. It already manufactures RACs and Inverter RACs of various energy efficiency ratings using green refrigerant. It will continue to add new products for the RAC industry to its offerings. AEIL's R&D team is developing new IDU and ODU chassis and will focus on increasing the share of ODM based manufacturing in overall sales. Inverter RACs has huge growth potential in the Indian market (Source: F&S Report) and AEIL plans to grow this business. It is also working on developing new models of fan coil unit and IOT based Inverter RACs. In the component segment of its business, it plans to add new RAC components to its portfolio in order to achieve further backward integration and gain greater wallet share of customers. Such new products will include brushless DC motor, resin-core motors and inverter controllers. It is also developing heat exchangers for refrigerators and dryers and will continue to add further components for other consumer durables

Expand domestic customer base and grow export sales*:* The RAC demand in India is growing, owing to low penetration of RACs, rising disposable income, increased urbanisation, changing lifestyle trends, longer hot weather season and shortening of replacement cycle. The Indian RAC market volumes are expected to grow at a CAGR of 12.8% from Fiscal 2017 to Fiscal 2022. Such growth may result in expansion of existing RAC brands as well as entry of new consumer durable brands in the RAC segment. This provides AEIL with an opportunity to increase its sales and expand customer base. Moreover, being among few players with complete ODM offering in the RAC segment in India and with its experience in providing customer-centric additive manufacturing solutions, AEIL seeks to expand its global reach through increased customer acceptance of its products in international markets. As the globalisation trend continues and barriers to trade in various markets are reduced across the world. An export oriented strategy offers AEIL's business advantages. Indian manufacturing is increasingly becoming competitive with China. It currently exports to Saudi Arabia, Oman, Sri Lanka, Nigeria and Maldives and intends to leverage the low cost advantages of manufacturing in India and aims to initiate RACs exports into others countries in Middle East, South and South East Asia as well as Europe.

Continuing innovation and strengthening the R&D capacity*:* Customer's demand for higher performance and top quality products is growing rapidly in the RAC industry. In response to this, a key part of its strategy is to continually improve research and design capabilities to pre-empt market dynamics and meet customer's requirements. By providing high-value added and innovative products, AEIL seeks to be a preferred supplier to its customers, thus giving the opportunity to consolidate position with its customers and increase the share of their supply needs that it fulfil. To enhance R&D capabilities AEIL is undertaking a number of short-term and long-term R&D initiatives. Further, its R&D team is working on new models of Inverter RACs, hybrid chassis and adoption of green technology and will continue to realign R&D focus to the changes in technology and customer preferences. In addition, it also intends to implement improvements to R&D process through virtual validation and computer aided engineering analyses, rapid prototyping, accelerated testing and improved problem solving efficiency. In line with these initiatives, AEIL plans to expand its talent pool and increase research and design manpower.

Pursue selective acquisitions, partnership opportunities and inorganic growth*:* The track record of AEIL's growth and expansion of its business coupled with its vision of expanding its operations enables it to look for opportunities for inorganic growth in order to complement its existing businesses. Accordingly, it continues to evaluate opportunities, domestically and internationally, to acquire established businesses or technologies which may be complementary to its existing business, including in the HVAC and refrigeration components sectors. Further, AEIL will actively seek out such opportunities that, in its assessment, are aligned with existing product lines. These opportunities could be by way of strategic acquisitions, joint ventures, new partner tie ups and asset purchases. It will pursue such opportunities where the company will add value to its business, its stakeholders and customers.

Continue to focus on increasing efficiency and profitability*:* Increased competition and stringent regulations have prompted the players in RAC market to find innovative ways to reduce cost and increase the overall efficiency. Improving cost efficiency in AEIL's manufacturing processes continues to be one of its key strategies. It has implemented innovative strategic cost-saving and efficiency improvement measures. It intends to continue further integration of manufacturing facilities and to carry out most of the processes in-house to maximise efficiencies. AEIL further aims to continue the culture of innovation as it propose to undertake other initiatives and programmes aimed at enhancing operational efficiencies and optimising asset and material flows. It also focus on its relationships with vendors to ensure that its quality, costs and delivery objectives are met and it has taken steps such as regular audits of major vendors for this purpose. AEIL will continue to have a centralised approach towards sourcing and vendor management to gain economies of scale in raw material procurement.

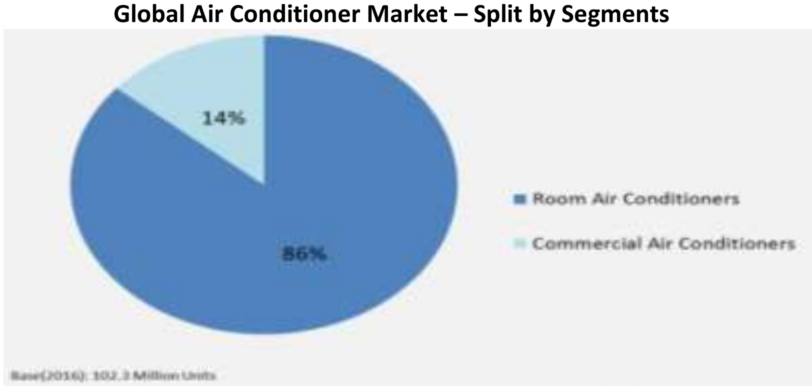
Industry:

Global Room Air Conditioner Market Overview

Infrastructure investments in developing economies revive global sales

Global demand for ACs is rising due to rapid demand from emerging countries and focus on energy efficiency in developed economies. After a contraction in demand in 2015, the global ACs market grew at a modest rate of 2% in 2016, registering a demand of 102.3 million units. The revival was majorly driven by late demand from China due to the unexpected variation in the weather pattern. China accounts for almost 40% of the total market in 2016 followed by the region Asia Pacific with 16% share.

Global Air Conditioner Market – Split by Segments



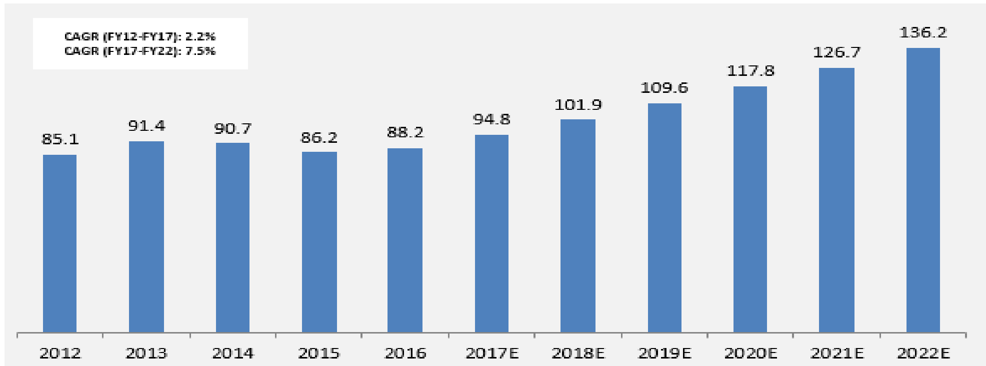
Source: The Japan Refrigeration and Air Conditioning Industry Association (JRAIA) ; Frost & Sullivan Analysis

Commercial infrastructure projects in the developing economies bode well for the market and have been instrumental in driving the volume for the commercial ACs segment at 14.1 million units in 2016. Growing middle class incomes especially in China and India has led to increased sales of RACs in the region contributing in the overall RAC demand of 88.2 million units in the same year.

Energy efficiency and technology innovation driven sales trend

The RAC market witnessed a moderate growth from 2012 to 2016 backed by improved construction activities only to decline in 2015 due to a demand dip in some regions. The drop in demand in Saudi Arabia and Brazil were instrumental in the demand contraction, however the continual demand from China revived the market in 2016. Energy efficient RAC with star ratings and inverter technologies have also influenced growth in sales of RACs.

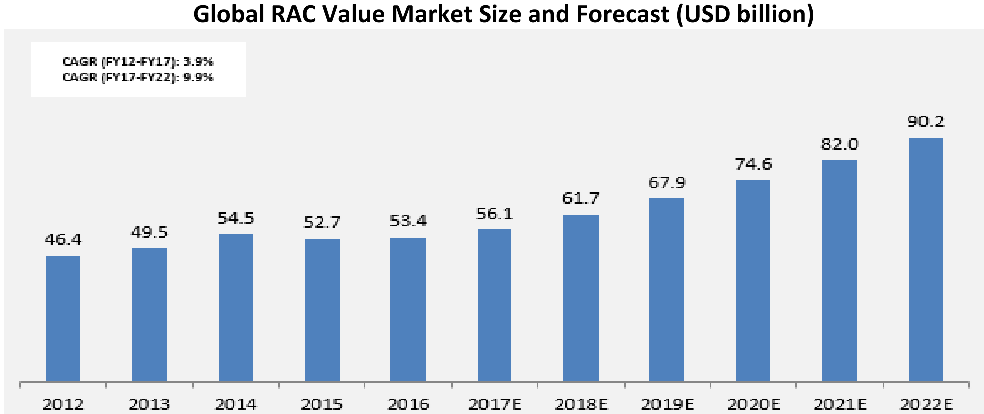
Global RAC Volume Market Size and Forecast (Million Units)



Note: E refers to Estimate Source:JRAIA; Global Industry Analysts, Frost & Sullivan Analysis

The outlook for the market shows positive signs backed by technological advancements in RAC space in aspects of costs and efficiency. The demand for RAC is expected to grow at a CAGR of 7.5% during the forecast period 2017-2022 primarily driven by increasing market penetration in emerging economies as well as high replacement demand in the developed countries.

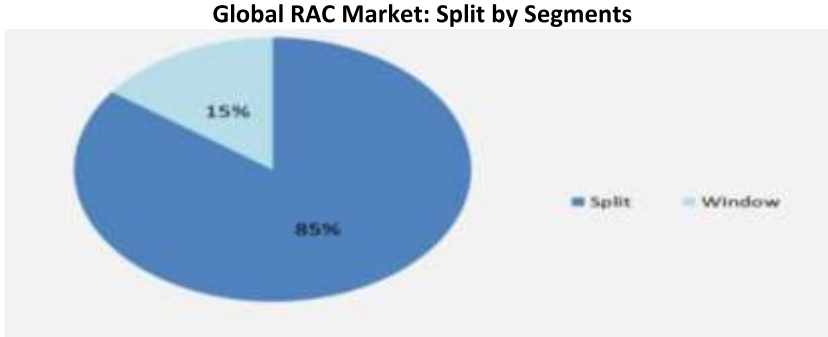
Global RAC Value Market Size and Forecast (USD billion)



Note: E refers to Estimate Source: The Building Services Research and Information Association (BSRIA), Frost & Sullivan Analysis

Increased competition and stringent regulations have prompted the players in the RAC market to find innovative ways to reduce costs and increase the overall efficiency which has been beneficial to the end-users. Also the rise in disposable incomes of the middle income population has led to greater affordability. Hence RAC purchase in most instances is considered as a necessary lifestyle product rather than luxury. These factors have helped the sales of the global revenues reach USD 53.4 billion in 2016 and the revenues are expected to grow at a CAGR of 9.9% to reach USD 90.2 billion in 2022.

Global RAC Market: Split by Segments



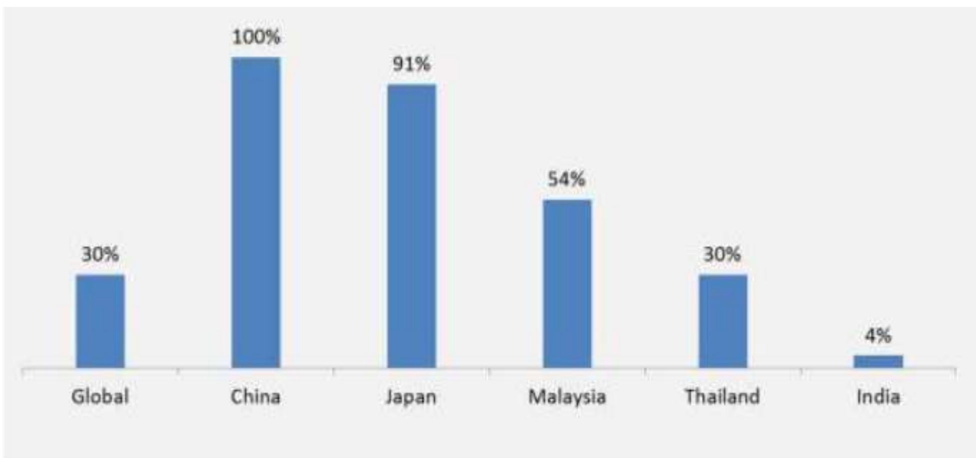
Base(2016): 88.2 Million Units Source:JRAIA; Frost & Sullivan Analysis

Asia pacific to witness the strongest growth due to growing middle class incomes

With increasing penetration levels of RACs, China dominated the global RAC market accounting for 43% of the overall demand. Japan and India are the key countries contributing to the demand in the rest of Asia Pacific region. North America witnessed a decline of 1% in RAC sales in 2016 due to slowdown in economy, however it accounted for 9% of the global market in 2016, thus signifying a steep decline in prices. The RAC market in Europe accounts for 6% of the global share with 5.37 million units and is expected to increase in future. The Middle East and Africa region accounted for 8% registering lower demand due to subdued business sentiments in the region led by economic challenges of Saudi Arabia. Rest of the world included Latin America and Oceania such that Latin America contributed to 6.5% of the global market.

The penetration of RAC in China has grown tremendously from 54% in 2008 to 100% in 2017. The growth rate of the RAC segment was significant in comparison to other categories such as washing machines and refrigerators.

RAC Market Penetration - Select Asian Countries and Global



Source: CEIC, HSBC, BELDA Asia, Frost & Sullivan Analysis

Lifestyle changes and increasing affordability leading to growth of RAC

Rapid developments in urban areas have led to paved spaces, reduced greenery and extensive use of dark roofs, all of which leading to escalating urban heat island effect resulting in rise in temperatures worldwide. The rising temperature has driven the demand for RACs to battle heat. Growing income levels in developing economies with larger middle class population has enabled affordability and discretionary spending. It is expected that by 2030, two-thirds of the global middle class will reside in the Asia-Pacific region. India and China will lead this trend with the latter with 150 million people as part of the middle class will contribute 500 million. India's middle class share is around 50 million people and is expected to reach 200 million by 2020.

Market Assessment Of Indian Consumer Durables

High demand and un-tapped regions presents huge growth opportunity

Indian consumer durables market has been witnessing sustained double digit growth rate in the past few years. A robust Indian middle class with growing disposable incomes has been instrumental in driving demand of various consumer durables. Increasing product awareness, affordable pricing, innovative products and the high disposable incomes have aided in the strong growth in the white market in India. Rapidly shrinking replacement cycle for consumer durables is observed as sustaining demand in urban India. The existing low penetration rates and the increasing usage of consumer durables have catapulted rural India to the high demand potential segment. The consumer durables market in India is characterized by technological advancements, innovative product introductions, price fluctuations and intense competition.

Market Size and Forecast of Consumer Durables (Volume in Million Units)

Consumer durables volumes are expected to witness an impressive CAGR of 14.3% from Fiscal 2017 to Fiscal 2022. Products such as FPD televisions ("**FPD TV**"), refrigerators ("**REF**"), washing machines ("**WM**"), RACs and air coolers find pan India adoption. In the consumer durables market, almost 55-60% of the revenues are contributed by the urban markets. Innovation by consumer durable brands product lining, marketing and delivery models, complemented by rising disposable incomes and evolving life styles are expected to bring about growth in overall revenues by Fiscal 2022.

Market Size and Forecast of Consumer Durables (Value in ₹ billion)

Note: E refers to Estimate　　Source: Company Websites, Frost & Sullivan Analysis

Implementation of minimum energy efficiency performance standards by Bureau of Energy Efficiency ("**BEE**") and the need for cost effective air conditioning solutions shall drive the demand for energy efficient RAC in India. Increasing number of nuclear families, urbanization, lifestyle changes, large untapped market and environmental changes will fuel the growth in TVs, REFs, RAC, air coolers and WM markets during the forecast period. In consumer durable industry, some of the critical selection factors will be price competitiveness, promotion initiatives, service support, product durability, improved features and availability of energy efficiency models. Consistent increase in indigenous production, emphasis on product localization by suppliers, and continuous focus on R&D has led to the growth of domestic manufacturers in consumer durables industry. The Indian air conditioning market is divided into two major segments: commercial ACs (VRF, Chillers) and RACs (Split and WACs). RAC segment has 95% share in terms of volume in the overall AC market in India. RAC, along with REF market is expected to grow more in upcoming years, mainly guided by rising household income, improving living standards, rapid urbanization, increasing number of nuclear families and large untapped semi-urban and rural market. The major players are adopting various pricing strategies and launching the new models with advanced features and new designs.

Low penetration of RAC in comparison to other consumer durables

India's consumer durables market has been growing over the last few years but remains fragmented. The growth of consumer durables market is driven by the increase in disposable income including higher salaries of Government employee post seventh pay commission, urbanisation and easy consumer financing. With increase in efforts on product innovation and launch of new variants of products, the overall market is increasing. The scope of penetration is supported by increase in organised retail market in future.

The RAC penetration level in India (4%) lags when compared to the global level (30%) implying the room for growth. With the increasing temperature conditions in India the scope of demand will increase in the next few years. Overall Indian market remains at sub-par level when compared to the global average. With increase in rural market sales and product lining strategies, the market penetration is expected to improve in future.

Low localization levels offer an opportunity to domestic component manufacturers

Although the level of localization has increased in assembling in the last few years, the manufacturing of consumer durables in India is still low. Majority of electronic components in major appliances are imported due to the low supply base in India. Ease of procurement and abundance of components availability in India's neighbourhood supports high imports scenario. In RACs, localization is around 65% as compressors are imported. Localization is comparatively higher in case of air coolers due to presence of numerous indigenous players procuring products domestically.

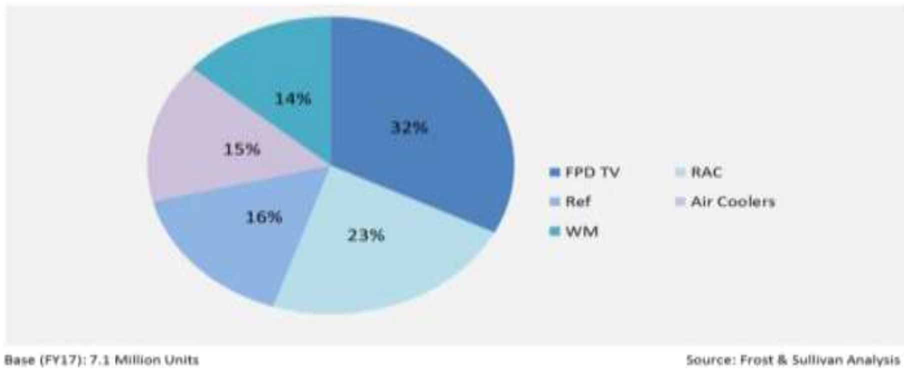
OEM/ ODM adding value to the business of consumer durable brands

A booming consumption economy where demand for consumer durables is on an exponential rise has cast the Indian OEM/ODM market into the limelight zone. Propelled by the need for import substitution, domestic manufacturing of consumer durables in India has attracted immense attention from both industry and policy makers. Favourable policy initiatives in recent years along with the changing dynamics in global manufacturing landscape have shifted the focus onto India for being a preferred destination for manufacturing investments. Following are the key reasons for the growth of OEM/ODM industry in India:

- Outsourcing allows consumer durables brands to restrict their focus to their core competence areas of innovation, differentiation, marketing and distribution.
- Economies of scale is another advantage offered by OEM/ODM companies and this is further encouraging consumer durable brands to collaborate with OEM/ODM partners for their design, manufacturing and even reverse logistics requirements.
- Consumer durable brands also save on the logistics and warehousing costs by partnering with OEM/ODM players.

- Technology and product dynamism in the consumer durables industry necessitates frequent call for innovation.
- Innovation in business models aimed at enhancing productivity and profitability have been driving consumer durable brands to embrace the services of OEM/ODM companies.
- Reduction in the working capital cycle by outsourcing the manufacturing part.
- Flexibility of providing multiple RAC models with quick turnaround time.

Market Segmentation of Consumer Durables OEM/ODM Industry



RAC is the second most prominent industry with 23% share in the total volumes of outsourced production in consumer durables segment in Fiscal 2017. OEM/ODM companies which started off as pure contract manufacturers have over time enhanced their capabilities to offer systems design and aftermarket services. This trend has been facilitated by the growing confidence of consumer durables brands in outsourcing activities beyond the core assembly. The move has been partly driven by the OEM/ODM companies' aspiration to explore higher returns than that is currently available. The increase in production volumes has enabled the OEM/ODM companies to negotiate favourable sourcing contracts for components and strengthen its supply chain.

OEM/ODM market in India enjoys unique benefits of an explosive domestic demand and the migration of manufacturing from other manufacturing havens driven by multiplicity of factors. These reasons have resulted in higher growth rate of Indian OEM/ODM market in comparison to average global market growth, and are expected to intensify in the next decade.

Growth drivers overshadow barriers in OEM/ODM industry

The geographical expanse of India and complexity of its target markets, call for high level of investment in the marketing and aftermarket functions. OEM/ODM offer consumer durable brands flexibility in product design updates, faster time to market, cost effectiveness; avoid manufacturing challenges besides offering value added services like design and aftermarket services. The need to offer a wider portfolio of models is necessary to achieve a presence across the target markets. Wider portfolio is difficult to manage; OEM/ODM can help consumer durable brands manage it. Thus consumer durable brands can focus on their core functions and avoid spreading their resources in their quest to achieve higher performance.

On the other hand, the government's stated objective of enhancing manufacturing content within India has been backed up by creation of a favourable environment. Whether it is the customs duty for certain products or removal of duties on components or encouraging local component manufacturing, there has been appreciable movement to drive domestic manufacturing. The government has also taken several steps towards increasing the ease of doing business, which has resulted in increased manufacturing setups by multiple foreign manufacturers in the country. This environment has certainly encouraged the OEM/ODM segment as consumer durable brands continue to push for collaboration with them. While consumer durable brands with smaller share of the market have naturally gravitated towards OEM/ODM to conserve their resources and maintain focus, larger RAC brands have also found merit in forging relationship with OEM/ODM players to retain their edge. Moreover, new players entering India find it easier to bank on OEM/ODM companies' services while they focus on building the brand and establishing an effective distribution network.

As manufacturers look to set-up facilities in proximity to cater to growing demand for localized products and with India gaining scale in its manufacturing operations; there is a potential export opportunity to demographically similar and neighboring regions such as Africa, SAARC and the Middle East in the coming years. Growing demand and rising import dependence will spur local manufacturing growth. Although there are multiple positives for the OEM/ODM growth story in India but because of the nature of this industry, there are some inherent challenges too. The investment required in the OEM/ODM industry is very high thus is an entry barrier for a new player entering the market. The situation is aggravated by the high finance costs which make borrowing a costly affair. Since margins in appliances are thin, the OEM/ODM players essentially need high volumes to make their operations profitable, thus making attainment of economies of scale a necessity for them. Seasonality and variable nature of many product markets result in fluctuations in demand by the consumer durable brands and this uncertainty affects the production cycle of an OEM/ODM provider. They also need to continuously innovate and bring out new and refined capabilities in order to restrict the consumer durable brand partners from moving to the competition. The trend toward short product lifecycles critically affects the OEM/ODM industry. Consumer preferences change frequently, requiring OEM/ODM companies to maintain fast and effective processes that can enable new product introduction.

Free Trade Agreements with ASEAN countries result in making imports cheaper when compared to local manufacturing. Many consumer durable players like Sony, Panasonic, Samsung, etc. import from these destinations at lower costs in comparison to domestic manufacturing. Inadequate domestic standards and testing facilities for many of the products in India paves way to supply sub-standard products and also does not control the dumping of sub-standard products into India. In spite of the development of Special Economic Zones and Electronics Manufacturing Clusters ("**EMCs**"), the infrastructure requirement in terms of constant water, electricity, utilities supply is still an evolving set of benefits. Non-operational Greenfield EMCs and high cost of capital (12 to 14% cost of borrowed capital) poses a challenge for local manufacturing. The advantages of domestic manufacturing over-shadow the associated disadvantages. Consumer durable brands have an option of increasing in-house manufacturing capacity or associating with the OEM/ODM players. The value offered by OEM/ODM players is superior to in-house manufacturing undertaken by the consumer durable brands themselves. The protection offered to designs and intellectual property of a consumer durable brand being strong and assuring, the preference for OEM/ODM option trumps the investment to be made by the former.

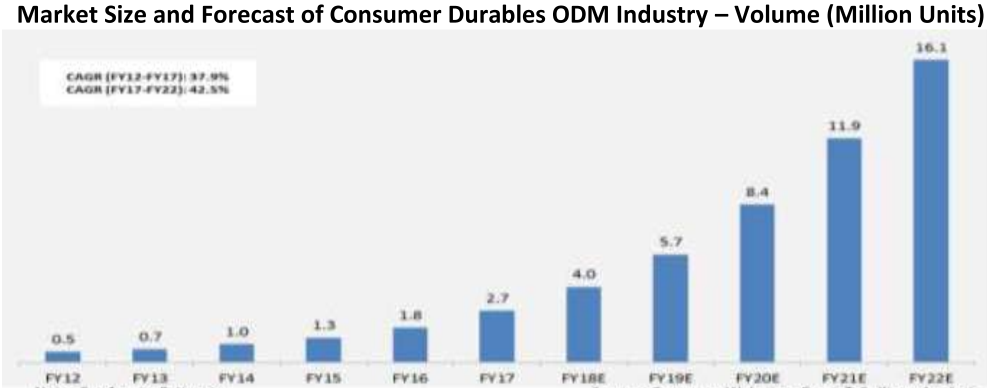
OEM/ODM Industry – Split by Type of Requirement

The push from the government towards greater domestic manufacturing has OEM/ODM companies as the key enabling player in its planned success. The increasing cost of manufacturing in China on account of its high labour costs has consumer durable brands exploring cost effective locations. India with its competitive labour and overhead costs ranks as an attractive destination for relocating investments. Though concerns about infrastructure and component ecosystem exist, they pale in comparison to the significant advantages offered by domestic demand and labour costs. OEM/ODM companies are increasingly focussing on the ways to enhance their value offering by moving up the value chain. Being an ODM is seen as a step forward in gaining the confidence of the consumer durable brands besides acquiring a higher wallet share. Many OEM/ODM players provide design services as part of their bouquet of offering to customers, while relying on their core OEM/ODM services. Various players like Micromax, Intex, Abaj etc. are expected to witness a faster growth and this segment will be high reliant on the services of ODM services. The larger players today primarily solicit OEM/ODM services but the evolution of this industry can drive higher possibility of ODM services too. New market entrants will find OEM/ODM an attractive option in order to achieve a faster market penetration. The future appears bright for the OEM/ODM industry in India as the relationship between consumer durable brands and their manufacturers move from a transactional to a strategic one.

Growing importance of ODM segment in the OEM/ODM industry

Consumer durables have frequent design revisions, as the users demand new features, comfort, safety and therefore creativity and innovation from the brands. Consumer durables brands have to innovative in products and market presence in order to maintain competitiveness. The companies invest in their in-house design team so that there is an undiluted focus. Barring some leading brands, most companies lack the capacity to sustainable investments in R&D and product design. This gap and the strong need for product innovation are encouraging the ODMs to fulfil the same.

Market Size and Forecast of Consumer Durables ODM Industry – Volume (Million Units)



Consumer durables ODM is expected to increase from 2.7 million units in Fiscal 2017 to 16.1 million units in Fiscal 2022, at a CAGR of 42.5%. Owing to their economies of scale, expertise and dedicated focus, ODMs are better suited to invest and operate design operations. On account of larger operations and associated overheads, RAC brands' flexibility in frequent design changes is limited. Hence it is natural for RAC brands to bank on ODMs for quick support and faster time to market in a highly competitive environment.

Government is treating manufacturing as the priority sector

Long years of low focus or neglect of the electronics and appliances industry had resulted in poor ecosystem development. The potential of a robust ecosystem for local product development and manufacturing is a well-recognized need and successive governments over the last decade have worked towards changing the prevailing scenario. The Government's endeavour has been to rationalize duties and taxes to enable local manufacturing and reduce reliance on imports of finished goods. Lower duties on components and inputs for manufacturing have enabled a positive environment vital for encouraging value addition. Introduction of GST has also played a supporting role in enabling lower cost and greater ease of operations. GST will subsume Countervailing Duty ("**CVD**") and Special Additional Duty ("**SAD**"), however, Basic Customs Duty ("**BCD**") will continue to be applicable in imports. The key customs duty applicable on completely built electronics hardware is at the peak rate of 10%. As far as the inland taxes are concerned the consumer durables have experienced a marginal price revision on account of 28% tax under GST. The earlier tax rate applicable on the products ranged from 22% to 24%, which has hence been hiked to 28% under the GST regime. The months of July and August in 2017 witnessed a slight increase in prices though the same has been neutralized by significant uptake in market demand. Refund of duty – Under the new law, tax paid during import will be available as a credit under *"Import and Sale"* model, whereas no such credit is available presently. Also refund of SAD which is available now, after doing specific compliance, no such restrictions are placed under GST. The government has treated the electronics manufacturing sector as a priority under its *"Make in India"* program, and announced several policy initiatives (such as EDF, PMA, skill development and MEIS) and incentives (such as MSIPS), which will act as drivers to boost domestic supply. It has also taken several steps towards increasing the ease of doing business, which has resulted in increased manufacturing units by multiple foreign manufacturers in the country.

Manufacturing competitiveness of India is increasing vis-à-vis China

India has always been considered to be a high cost destination with lower ease of doing business. In the recent years, India has made quantum jumps in its global rankings to become a preferred destination for investment. India's manufacturing industry, hitherto plagued by low demand and value addition was not considered among the top destination by decision makers. This status underwent a change with the change in the government in 2014 and its undiluted focus on manufacturing through Make-in-India policies, which caught the imagination of the global and domestic companies. China, given the long history and dominance in the manufacturing has been the favourite target for companies. The downturn in global economic conditions and years of high growth resulted in downward movement in China's fortunes. Also many countries in the Asian region offered global investors with options which encouraged them to explore. Though the manufacturing ecosystem is still the strongest, the recent years have witnessed an increase in labour costs which have dampened its standing as a low cost manufacturing location. On the other hand, India has been leveraging its demographic dividend while bringing in the much required flexibility in its manufacturing policies. The conscious efforts to attract global investors have led to increase in FDI and also investor confidence.

Procurement from China experiences a time lag of forty to forty-five days. This lead time results in a cost escalation that is sought to be avoided. In order to overcome this challenge, many suppliers are evaluating establishing units in India to negate this disadvantage in logistics. The factors which are aiding this move are low labour costs, large potential user base, existing engineering capabilities in plastics, metal fabrication and power management. Tier-II Indian consumer durable brands prefer the ODM engagement model which has turned out to be extremely cost competitive than in other countries. Government has been encouraging manufacturing through policy support and duty elimination for components so as to enhance cost competitiveness of local manufacturing. This includes tax holiday and waiver on utility charges, thus lowering this cost component. The creation of industrial clusters is expected to be highly beneficial in reducing the utilities costs for manufacturers. A major pull factor for major manufacturers is the political friction between Japan and China, which has influenced Japanese brands to prefer India as a manufacturing destination for local market and exports the states in India are competing with each other to offer best incentives to manufacturers. The trust deficits suffered by Japanese investments have influenced many brands such as Panasonic to prefer Indian manufacturing partners. To source from China, manufacturers have to plan six months in advance to book capacities. To hedge better against consumer demand volatility and manage inventory efficiently, India is emerging as a preferred manufacturing location. The labour cost in China is increasing on account of lower availability of cost effective manpower. The aspiration level of Chinese workers has increased dramatically over the last decade and they focus on high-tech jobs, leaving gaps in the low end of manufacturing value chain. This has led to shortage of labour and a higher cost due to lack of commensurate manpower.

Market Assessment Of Indian Room Air Conditioners

Product innovation and energy efficiency driving RAC sales in India

The Indian RAC market has been witnessing robust growth trend in the past five years with a CAGR of 9.4% by volumes. In the next five years, the market is expected to witness a CAGR of 12.8% reinforced by the surge in rural consumption, shorter replacement cycles, energy-efficient RACs and availability of multiple brands at various price points. The RAC volumes are expected to increase from 4.7 million units in Fiscal 2017 to reach 8.6 million units by Fiscal 2022. Future demand for RAC is expected to be driven by better features and energy efficiency as two of the key buying criteria in Indian market. The large domestic demand has seen major global RAC brands focusing on India as a manufacturing base aided by supportive Government programs especially the 'Make in India' program.

Low RAC penetration in India presents huge opportunity
Due to the current low penetration of 4%, 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 where heightened economic activity has resulted in greater affordability. Additionally, new product features and technological advancement in the RAC market has added to the increase in replacement demand of the product.

Affluent middle class drives the Indian RAC market
The growth of RAC market is driven by the increase in disposable income, urbanisation and easy consumer financing. The constant change in the consumer preference leads the manufacturers to bring in new innovative and value-added products. In 2012, about 52% of population in India were concentrated in the middle-income group. This proportion of the population has witnessed a steady income on back of economic growth and is expected to command 69% share by 2020. This segment of the population is the key generator of consumer demand and also the driver for the RAC market. Moreover, 64% of the total population (534.8 million) of India will be living in urban clusters by 2025 while cities will account for 70% of India's GDP in 2030. The Indian market is also witnessing a rising trend of lifestyle changes among its younger population leading to an early adoption of white goods. The lower age profile also reflects an aspirational population which has a different buying behaviour with a significantly higher risk-averse character. The availability of easy finance offers the younger generation an added flexibility in exercising its buying options. The usage pattern of this generation leads to lower life cycle and shorter replacement cycle of the products, thus expanding the market potential.

Faster product development cycles paving the growth of OEM/ODM companies in RAC and RAC components
As domestic demand has been continually rising in Indian RAC market, the volume of manufacturing that is outsourced by RAC brands to OEM/ODM companies is expected to grow manifold. Another key contributor towards growing OEM/ODM market share is the entry of many new players in the RAC market. These new but relatively smaller players lack backward integration capabilities making them rely entirely on OEM/ODM companies to bring out their products in the market. The rate of change of technology and product features of consumer durables, especially the RACs have undergone tremendous changes such that RAC brands find it challenging to match the pace. This brings the OEM/ODM players to forefront as they exhibit flexibility in a dynamic environment through nimble manufacturing operations, shorter timelines and attractive economics.

During Fiscal 2017, OEM/ODM manufactures around 34% of the total RAC market volumes by demand. By Fiscal 2022, the OEM/ODM volume share is expected to reach 56% of the total RAC market volumes highlighting the immense potential held by this key contributor to the industry. Intense competition and growing number of RAC brands in the market has forced RAC brands to concentrate of marketing and promoting their product to spread their sales reach expand their market share pie. RAC brands are adopting asset light strategy hence they are choosing to outsource most of the manufacturing of RAC and RAC components to ODM/OEM players. The Indian OEM/ODM players have also invested in expanding and building newer capabilities to serve the overall white goods market. R&D, design and engineering were substantially negligible revenue generating activities in the overall portfolio of services offered to RAC brands five years back. With increasing dependence of RAC brands on OEM/ODM companies, priority has been placed to strengthen R&D, design and engineering capabilities, which are high-value activities amongst all services.

Global companies evince interest in India
The increase in demand, supply advantage and policy support is making it attractive for various global companies to participate in the Indian market. The *"Make in India"* policy, also draws attention to India with its emerging strength as the hub for manufacturing, design and innovation. In next few years many companies are expected to execute their investment plan to design, produce and distribute in India. These investors foresee India as a parallel manufacturing hub to China for export of key product across Europe and US. Government is currently working on export – oriented policy to promote greater exports of electronics and attract investments by setting up port-based electronic manufacturing clusters.

Emergence of new players will positively impact the OEM/ODM business Over the last few years, the trend of new mid-sized players entering the white goods markets has generated excitement. These players are primarily engaged in retailing activities for leading brands. Some of the top durable retailers of the country, namely Croma, Reliance Digital, Next, eZone, etc. have started offering in-house brands of WMs, ACs, microwave ovens, etc, which has found wide acceptance with consumers.

Key Concerns

Business is dependent on certain principal customers and the loss of, or a significant reduction in purchases by, such customers could adversely affect the business, financial condition, results of operations and future prospects: A majority of AEIL's revenue is derived from is top 10 customers. Sales to its top five and top 10 customers contributed 74.77% and 92.52%, respectively, of its revenue from operations in Fiscal 2017. Further, sales to its top five and top 10 customers contributed 75.10% and 92.52%, respectively, of its revenue from operations in the six month period ended September 30, 2017. Its customers often undertake vendor rationalisation to reduce costs related to procurement from multiple vendors. Since it is largely dependent on certain key customers for a significant portion of its sales, the loss of any one of its key customers or a significant reduction in demand from such customers could have a material adverse effect on its business, financial condition, results of operations and future prospects.

If customers do not continue to outsource manufacturing, or if there is a downward trend in OEM/ODM business, sales could be adversely affected: AEIL is engaged in the business of providing end to end product solutions including components as well as RACs on OEM/ODM basis. In recent years, RAC brands has increasingly outsourced the manufacturing of their products to OEM/ODM players like AEIL. However, there can be no assurance that it will continue to do so in the future. A customer's decision to outsource is affected by its ability and capacity for internal manufacturing and the competitive advantages of outsourcing. Its sales to its customers is also dependent on their business position and financial health. There can be no assurance that the customers will continue to outsource or increase the share of outsourcing. If RAC brands do not continue to outsource the manufacturing of their products or reduce the amount of manufacturing outsourced by them or if its customers decide to perform these functions internally r use other providers of these services, its future growth could be limited and its sales and operating results may suffer.

Any slowdown in the RAC industry may adversely impact the business, results of operations, financial condition and cash flows: A customer's decision to outsource is affected by its ability and capacity for internal manufacturing and the competitive advantages of outsourcing. AEIL's sales to its customers is also dependent on their business position and financial health. There can be no assurance that its customers will continue to outsource or increase the share of outsourcing. If RAC brands do not continue to outsource the manufacturing of their products or reduce the amount of manufacturing outsourced by them or if its customers decide to perform these functions internally or use other providers of these services, AEIL's future growth could be limited and its sales and operating results may suffer. AEIL's sales of RACs and components are directly related to the production and sales of RACs by its customers. Sales and production of RACs and components may be affected by general economic or industry conditions, including seasonal trends in the RAC sector, evolving regulatory requirements, government initiatives, trade agreements and other factors. Any economic downturn and recessionary trends in RAC industry, both in India and in export markets, may significantly affect its business, financial condition, results of operations and future prospects.

AEIL's inability to identify and understand evolving industry trends, technological advancements, customer preferences and develop new products to meet customers' demands may adversely affect the business*:* The RAC and other consumer durables market in India is characterised by technological advancements, introduction of innovative products, price fluctuations and intense competition. Changes in consumer preferences, regulatory or industry requirements or in competitive technologies may render certain of its products less attractive or obsolete. AEIL's ability to anticipate changes in technology and regulatory standards and to successfully develop and introduce new and enhanced products to create new or address yet unidentified needs among current and potential customers in a timely manner, is a significant factor in its ability to remain competitive. However, there can be no assurance that AEIL will be able to secure the necessary technological knowledge, through its own research and development or through technical assistance agreements that will allow to continue to develop its product portfolio or that AEIL will be able to respond to industry trends by developing and offering cost effective products. AEIL's failure to successfully and timely develop and manufacture new products in order to cater to the requirements of the customers and industry trends could have a material adverse effect on its business, financial condition, results of operations and future prospects.

AEIL do not have firm commitment agreements with customers. If customers choose not to source their requirements from the company, its business and results of operations may be adversely affected*:* AEIL do not have firm commitment long-term supply agreements with all its customers and instead rely on purchase orders to govern the volume and other terms of its sales of products. Many of the purchase orders AEIL receives from its customers specify a price per unit and delivery schedule, and the quantities to be delivered are determined closer to the date of delivery. However, such orders may be amended or cancelled prior to finalisation, and should such an amendment or cancellation take place, it may adversely impact the production schedules and inventories. Additionally, customers has high and stringent standards for product quality and quantity as well as delivery schedules. Any failure to meet customers' expectations could result in the cancellation or non-renewal of contracts or purchase orders. There are also a number of factors, other than performance that could cause the loss of a customer. Customers may demand price reductions, set-off any payment obligations, require indemnification for themselves or their affiliates, or replace their existing products with alternative products, any of which may have an adverse effect on AEIL's business, financial condition, results of operations and future prospects.

Failure to compete effectively in the highly competitive RAC and equipment manufacturing industry could result in the loss of customers: AEIL's failure to obtain new business or to retain or increase existing market share could adversely affect its financial results. In addition, it may incur significant expense in preparing to meet anticipated customer requirements that it may not be able to recover or pass on to its customers. AEIL competes on the performance, functionality, customer service and support, availability, price and brand recognition of its products. Increased competition may force AEIL to improve its process, technical, product and service capabilities and/or lower its prices or result in loss of customers, which may adversely affect the profitability and market share, in turn, affecting the business, financial condition, results of operations and prospects.

Pricing pressure from customers may adversely affect gross margin, profitability and ability to increase prices: AEIL's customers often pursue price reduction initiatives and objectives with their suppliers including AEIL. Adopting cost cutting measures while maintaining stringent quality standards may lead to a decrease in margins, which may have a material adverse effect on the business, financial condition, results of operations and future prospects. Its business is capital intensive, requiring to maintain a substantial fixed asset base. Therefore, its profitability is dependent, in part, on its ability to spread fixed production costs over higher production volume. If AEIL is unable to efficiently undertake manufacturing and generate sufficient cost savings in the future to offset price reductions or if there is any reduction in consumer demand for RACs and components, its sales, gross margin and profitability may reduce, which may have a material adverse effect on business, financial condition, results of operations and future prospects.

Manufacturing capacity may not correspond precisely to customers' demands which may affect results of operations: AEIL's customers may require to have a certain percentage of excess capacity that would allow to meet unexpected increases in purchase orders. The volume and timing of sales to its customers may vary due to a number of reasons, including but not limited to a variation in demand for customers' products, its customers' endeavours to manage their inventory, design changes, changes in their product mix, manufacturing strategy and growth strategy, and macroeconomic factors affecting the economy in general and its customers in particular. Occasionally, customers may require rapid increase in order quantities beyond its available capacity, and it may not have sufficient capacity at any given time to meet sharp increases in these requirements. On the other hand, at times there is also a risk of the underutilization of the production line, which may result in lower profit margins. AEIL's inability to forecast the level of customer demand for its products, as well as inability to accurately schedule raw material purchases and production and manage its inventory may adversely affect the business and cash flows from operations.

Success largely depends upon the knowledge and experience of Promoters and Key Management Personnel as well as ability to attract and retain skilled personnel*:* AEIL depends on the management skills and guidance of Promoters for development of business strategies, monitoring their successful implementation and meeting future challenges. Further, it also significantly depend on the expertise, experience and continued efforts of Key Management Personnel. Its future performance will depend largely on its ability to retain the continued service of management team. If one or more of AEIL's Key Management Personnel are unable or unwilling to continue in his or her present position, it could be difficult for the company to find a suitable or timely replacement and its business could be adversely affected. AEIL do not have key man insurance policies and in the event it is not able to attract and retain talented employees, as required for conducting its business, or if it experience high attrition levels which are largely out of its control, or if it is unable to motivate and retain existing employees, its business, financial condition and results of operations may be adversely affected

AEIL has undertaken and may continue to undertake strategic investments and alliances, acquisitions and mergers in the future, which may be difficult to integrate and manage*:* AEIL has pursued and may continue to pursue acquisitions, mergers and strategic investments and alliances in India as well as overseas as a mode of expanding its operations in the future. Going forward, it may undertake further acquisitions, mergers, investments and expansions to enhance operations and technological capabilities. Such acquisitions could be in existing verticals or in new related verticals, in India or abroad, and incremental or transformational. There can be no assurance that the company will be able to raise sufficient funds to finance such strategies for growth. Further expansion and acquisitions may require to incur or assume new debt, expose it to future funding obligations or integration risks, and it cannot be assured that such expansion or acquisitions will contribute to the profitability. AEIL may also face challenges with respect to integrating such acquired entities or facilities with its existing operating and manufacturing systems and procedures, integrating staff and personnel in such facilities, implementing health, safety and quality control systems and procedures. In addition, there can be no assurance that it will be able to consummate its expansions, acquisitions, mergers or alliances in the future on terms acceptable to it, or at all. Consequently, AEIL may be exposed to uncertainties and risks, any of which could adversely affect the business, financial condition, results of operations and future prospects.

AEIL may be subject to financial and reputational risks due to product quality and liability claims which may have an adverse effect on the business, financial condition and results of operations: In the event that AEIL is not able to meet the regulatory quality standards, or strict quality standards imposed by its customers, which are applicable to it in its manufacturing processes, it could have an adverse effect on business, financial condition, and results of operations. The contracts AEIL enters into with its customers typically include warranties that the products it deliver will be free from defects and perform in accordance with specifications agreed with the customers. To the extent that products shipped by it to its customers do not, or are not deemed to, satisfy such warranties, AEIL could be responsible for repairing or replacing any defective products, or, in certain circumstances, for the cost of effecting a recall of all products which might contain a similar defect, as well as for consequential damages. Further, it continues to be subject to claims from customers if the end products sold by customers fail to perform or cause injury, death or damage due to technical or other issues in its products due to defects attributable to it. If any of the products sold by AEIL fails to comply with applicable quality standards, it may result in customer dissatisfaction, which may have an adverse effect on its business, sales and results of operations.

Financing agreements contain covenants that limit flexibility in operating business*:* AEIL is bound by restrictive and other covenants in its facility agreements with various lenders, including but not limited to, restrictions on the utilisation of the loan for certain specified purposes, timely provision of information and documents, timely creation of security, maintenance of financial ratios and obtaining prior written approval from the relevant lender for various corporate actions in terms of its financing arrangements. If AEIL is not in compliance with certain of these covenants and is unable to obtain waivers from all of its lenders, its lenders may accelerate the repayment schedules. Furthermore, these covenant defaults can result in cross-defaults in other debt financing agreements, and there can be no assurance that potential defaults will not result in future cross-defaults. If any of its lenders accelerate the repayment of its borrowings, AEIL cannot assure you that it will have sufficient assets to repay amounts outstanding under its loan agreements or continue its business.

Business is dependent on the contractual arrangements entered into by the company*:* AEIL enters into contracts with its customers which, depending on the customer, may contain terms and conditions which include among others the nature and specification of products to be manufactured and supplied by it, details of vendors of raw materials that are approved by some of the customers, manner of inspection and testing of products manufactured, representation and warranties made by it in relation to its manufacturing capabilities, process to be followed in case of defects, steps to ensure compliance with applicable laws, quality of products, undertakings in relation to protection of intellectual property of its customers, indemnification of customers due to negligence or breach of any term of the agreement, defect warranties in relation to the products manufactured or assembled by AEIL. While, the company consider all factors internally prior to entering into such contractual agreements, it cannot be assured that it will not enter into such agreements in the future. This may result in potential loss of customers as it may not be able to manufacture products for such customers in the future or may not be willing to work with them. Further, it may also face challenges with respect to interpretation of its contractual arrangements, which may lead to disputes in the future. Additionally, non-compliance with the terms of the contractual arrangements may lead to, among other things, damages, penalties or termination of the agreements, which may consequently result in its inability to attract further business in the future.

AEIL is subject to counterparty credit risk and any delay in receiving payments or non-receipt of payments may adversely impact the financial condition and results of operations*:* There is no guarantee that AEIL will accurately assess the creditworthiness of its customers. Macroeconomic conditions, such as a potential credit crisis in the global financial system, could also result in financial difficulties for customers, including limited access to the credit markets, insolvency or bankruptcy. Such conditions could cause its customers to delay payments, request modifications of their payment terms, or default on their payment obligations, all of which could increase AEIL's receivables. Timely collection of dues from customers also depends on its ability to complete its contractual commitments and subsequently bill for and collect from its clients. If AEIL is unable to meet its contractual obligations, it might experience delays in the collection of, or be unable to collect, its customer balances, and if this occurs, its results of operations and cash flows could be adversely affected. In addition, if it experience delays in billing and collection for its services, its cash flows could be adversely affected. If any of AEIL customers has insufficient liquidity, it could encounter significant delays or defaults in payments owed to it by such customers, or it may extend its payment terms, which could adversely impact its financial condition and operating results.

A significant majority of AEIL's sales take place immediately prior or during the summer months, and any adverse weather conditions during such peak sales seasons may materially and adversely affect its sales, results of operations and financial condition*:* Sales of AEIL's AC and AC components are generally significantly higher in the summer months due to the heat and warm weather, and considerably lower during the monsoon and winter months. Bad weather conditions, including disturbed summers or untimely rains during the peak sales season of summer, may adversely affect its sales volumes, results of operations and financial condition, and could therefore have a disproportionate impact on its results of operations in the relevant year. Because of the significant fluctuations in demand for ACs during various seasons of the year, any comparison of the sales recorded and its results of operations between different periods within a year is not meaningful and should not be relied on as an indicator of future business prospects or financial performance.

AEIL has significant power, water and fuel requirements and any disruption to power, water or fuel sources could increase production costs and adversely affect results of operations: AEIL requires substantial power, water and fuel for its manufacturing facilities, and energy costs represent a significant portion of the production costs for its operations. If energy or water costs were to rise, or if electricity or water supplies or supply arrangements were disrupted, its profitability could decline. It source most of its electricity requirements for manufacturing facilities from state electricity boards and to a lesser extent, third-party suppliers. If supply is not available for any reason, it will need to rely on captive generators, which may not be able to consistently meet its requirements. Further, if for any reason such electricity is not available, AEIL may need to shut down its plants until an adequate supply of electricity is restored. Interruptions of electricity supply can also result in production shutdowns, increased costs associated with restarting production and the loss of production in progress. In addition, it source most of its water requirements from state utilities, but there is no assurance that it will be able to obtain a sufficient supply of water from sources in these areas, some of which are prone to drought. Therefore, AEIL is subject to price risk and if supply or access is not available for any reason, its production may be disrupted and profitability could be adversely affected.

AEIL's manufacturing facilities Dehradun Unit I, Dehradun unit III and HP Unit are availing certain tax benefits which are available for a specified period of time: AEIL benefit from certain tax exemptions provided by the Government of India in relation some of the manufacturing activities undertaken by it at its Dehradun Unit I, Dehradun Unit III and HP unit. These tax exemptions are related to tax holidays under various statutes. Most of these exemptions are valid for a maximum period of 10 years from the commencement of such manufacturing facilities. When these tax benefits expire or terminate, its tax expense is likely to materially increase thereby impacting profitability after tax. Further, with the introduction of the GST, the tax benefits available under the Central Excise Act, 1944, Uttarakhand Value Added Tax Act, 2005 and the Central Sales Tax Act, 1956, stand withdrawn in full, and the modus operandi to receive such benefits under GST has not been clearly defined by the government. At this stage, AEIL is unable to quantify the impact that such changes may have on its business, results of operations and profitability, due to limited information available in the public domain.

AEIL is subject to environmental, health and safety regulations, which may increase compliance costs: AEIL is required to comply with Indian central, state and local laws, governing the protection of the environment, as well as occupational health and safety, including laws regulating the generation, storage, handling, use and transportation of waste materials, the emission and discharge of waste materials into soil, air or water, and the health and safety of its employees. It is also required to maintain certain statutory and regulatory approvals, licenses, registrations and permissions, and applications need to be made at the appropriate stages for business to operate. Any rejection of application or renewal for pending approvals may have an adverse effect on its operations, and may also result in stoppage of production at its facilities. AEIL may experience delays in obtaining financial closures, locking in interest rates under loan agreements, or completing work according to schedules. As a result, it may not be able to execute its business plan as planned. An inability to obtain or maintain approvals or licenses required for its operations may adversely affect its operations.

AEIL might infringe upon the intellectual property rights of others and any misappropriation of intellectual property could harm competitive position*:* While AEIL take care to ensure that it comply with the intellectual property rights of others, it cannot determine with certainty as to whether it is infringing on any existing third-party intellectual property rights, which may require it to alter its technologies, obtain licenses or cease some of its operations. It may also be susceptible to claims from third parties asserting infringement and other related claims. Furthermore, necessary licenses may not be available to it on satisfactory terms, if at all. In addition, it may decide to settle a claim or action againstthe company, which settlement could be costly. AEIL may also be liable for any past infringement that it is not aware of. Any of the foregoing could adversely affect the business, results of operations and financial condition. In addition, in certain cases, its customers share their intellectual property rights in the course of the product development process that it carry out for them. If AEIL's customer's intellectual property rights are misappropriated by its employees in violation of any applicable confidentiality agreements, its customers may seek damages and compensation from it. This could have an adverse effect on the business, results of operations and financial condition and damage thereputation and relationships with customers

Depend on third parties for the supply of raw materials and delivery of products and such providers could fail to meet their obligations, which may have a material adverse effect on business, results of operations and financial condition: AEIL is dependent on third party suppliers for its raw materials. Discontinuation of production by these suppliers or a failure of these suppliers to adhere to the delivery schedule or the required quality could hamper its production schedule and therefore affect the business and results of operations. This dependence may also adversely affect the availability of key materials at reasonable prices thus affecting margins and may have an adverse effect on business, results of operations and financial condition. If AEIL experience a significant or prolonged shortage of raw materials from any of its suppliers, and it cannot procure the raw materials from other sources in the future, it would be unable to meet its production schedules for some of the key products and to deliver such products to customers in timely fashion, which would adversely affect its sales, margins and customer relations. AEIL uses third parties for the supply of raw materials and for deliveries of finished and unfinished products to its domestic and overseas customers as well as between production facilities. Any disruptions or transportation strikes may have an adverse effect on its supplies and deliveries to and from particular plants on a timely and cost efficient basis. An increase in freight costs or the unavailability of adequate port and shipping infrastructure for transportation of its products to its markets may have an adverse effect on the business and results of operations.

Failure or disruption of IT and/or ERP systems may adversely affect the business, financial condition, results of operations and prospects: AEIL has implemented various information technology ("IT") and/or enterprise resource planning ("ERP") solutions to cover key areas of its operations, procurement, dispatch and accounting. These systems are potentially vulnerable to damage or interruption from a variety of sources, which could result in a material adverse effect on its operations. Disruption or failure of IT systems could have a material adverse effect on its operations. A large-scale IT malfunction could disrupt business or lead to disclosure of sensitive company information. AEIL's ability to keep business operating depends on the proper and efficient operation and functioning of various IT systems, which are susceptible to malfunctions and interruptions (including those due to equipment damage, power outages, computer viruses and a range of other hardware, software and network problems).

AEIL may be subject to industrial unrest, slowdowns and increased wage costs, which may adversely affect the business and results of operations*:* As on November 30, 2017, AEIL had 1,152 full-time employees on its rolls and around 1,670 contract workers working in its facilities. Although it has not experienced any major disruptions to its business operations due to any labour disputes or other problems with its work force in the past, there can be no assurance that it will not experience such disruptions in the future. Such disruptions may adversely affect the business, reputation and results of operations and may also divert the management's attention and result in increased costs.

AEIL's continued operations are critical to its business and any shutdown of any of its manufacturing facilities may have an adverse effect on the business, results of operations and financial condition*:* AEIL has total of 11 manufacturing facilities and such facilities are subject to certain operating risks, such as the breakdown or failure of equipment, power supply or processes, performance below expected levels of efficiency, obsolescence of equipment or machinery, labour disputes, natural disasters, industrial accidents and the need to comply with the directives of relevant government and regulatory authorities. The majority of AEIL's revenue is presently from sale of products manufactured at these manufacturing facilities, therefore, any disruption to any of its manufacturing facilities may result in production shutdowns. In particular, if operations at AEIL's manufacturing facilities were to be disrupted as a result of any significant workplace accident, equipment failure, natural disaster, power outage, fire, explosion, terrorism, adverse weather conditions, labour dispute or unrest, obsolescence or other reasons, its financial performance may be adversely affected as a result of its inability to meet customer demand or committed delivery schedules for its products.

AEIL is subject to risks resulting from foreign exchange rate fluctuations, which could adversely affect the results of operations: Changes in currency exchange rate influence AEIL's results of operations. It imports various raw materials from certain countries and a substantial portion of its expenses on imports of raw material and other equipment procured by it is denominated in foreign currency. Its export sales are also denominated in foreign currency. The exchange rate between the Indian Rupee and foreign currencies, primarily the U.S. dollar, has fluctuated in the past and its cost of raw materials and results of operations may be impacted by such fluctuations. As it aims to increase its export sales, its operating expenses in connection with its operations outside India will be increasingly denominated in currencies other than Indian Rupees. Any fluctuations in the foreign currency exchange rates may have an adverse impact on its results of operations.

Business is substantially affected by economic, political and other prevailing conditions in India: AEIL is a public limited company incorporated in India, and the majority of its assets and employees are located in India. As a result, it is highly dependent on prevailing economic conditions in India and its results of operations are significantly affected by factors influencing the Indian economy. Any slowdown or perceived slowdown in the Indian economy, or in specific sectors of the Indian economy, could adversely impact the business, results of operations and financial condition and the price of the Equity Shares.

Business is vulnerable to downturns in the general economy and industries in which it operates or which it serve: AEIL's financial condition and results of operations depend significantly on worldwide economic conditions, as demand for its products depends on the general economy and level of activity and growth in the industries where it operates or serve. Unfavourable financial or economic conditions, such as the sovereign-debt crisis in the European Union, the continued weakness and uncertainty regarding the durability of the emerging economic recovery, has adversely affected the global economy. In addition, concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, unemployment, consumer confidence, declining asset values, capital market volatility and liquidity issues has created difficult operating conditions for the company in the past and may continue to do so in the future. If it is not able to timely and appropriately adapt to changes resulting from the difficult macroeconomic environment, its business, results of operations and financial condition may be adversely affected.

Profit & Loss **Rs in million**

Particulars	H1FY18	FY17	FY16	FY15
Revenue from Operations	9381.6	16444.0	10890.3	12302.7
Other Income	33.9	78.6	30.9	62.0
Total Income	9415.5	16522.6	10921.2	12364.7
Total Expenditure	8544.2	15158.2	9753.0	11277.1
Cost of raw material Consumed	7642.3	14009.3	8649.0	10190.3
Changes in inventories of finished goods and workin- progress	181.9	-271.3	-64.0	-56.4
Employee benefits expense	221.1	437.8	365.3	335.3
Other expenses	498.9	982.4	802.6	807.9
PBIDT	871.3	1364.4	1168.2	1087.6
Interest	266.9	583.4	532.5	427.9

PBDT	604.3	781.0	635.7	659.7
Depreciation	228.8	397.0	308.6	255.7
PBT	375.5	384.0	327.1	404.0
Tax (incl. DT & FBT)	102.4	105.0	86.1	116.3
Tax	79.7	88.2	79.6	87.9
Deferred Tax	102.4	105.0	61.7	65.0
Minimum Alternate Tax (MAT) credit entitlement	-79.7	-88.2	-55.2	-36.6
Reported Profit After Tax	273.1	279.0	241.0	287.7
EPS (Rs.)	11.47	11.7	11.1	13.3
Equity	238.1	238.1	217.0	217.0
Face Value	10.0	10.0	10.0	10.0
OPM (%)	8.9	7.8	10.4	8.3
PATM (%)	2.9	1.7	2.2	2.3

Balance Sheet: **Rs in million**

Particulars	H1FY18	FY17	FY16	FY15
Equity & Liabilities				
Shareholders Funds	**3626.3**	**3349.3**	**2626.4**	**2385.3**
Share Capital	238.1	238.1	217.0	217.0
Reserves and surplus	3388.2	3111.2	2409.3	2168.3
Non-Current Liabilities	**2414.8**	**2982.6**	**2421.7**	**2033.0**
Long-term borrowings	1833.1	2515.0	1614.2	1470.4
Deferred tax liabilities	536.7	434.3	329.3	267.6
Other long-term liabilities	0.2	0.0	447.2	271.0
Long-term provisions	44.9	33.2	31.0	24.0
Current Liabilities	**5678.3**	**6533.8**	**6101.8**	**5640.2**
Short-term borrowings	2454.6	933.9	1652.0	1596.5
Trade payables				
Dues to Micro Enterprises and Small Enterprises	128.9	255.0	164.5	113.3
Dues to creditors other than Micro Enterprises and Small Enterprises	1795.8	4203.0	2672.6	2306.4
Other current liabilities	1251.7	1101.8	1578.5	1563.3
Short term provisions	47.4	40.1	34.2	60.8
Total Equity & Liabilities	**11719.5**	**12865.7**	**11149.9**	**10058.5**
Assets				
Fixed Assets	**6514.9**	**6361.4**	**5814.0**	**5058.3**
Property, plant and equipment	4,617.07	4637.9	4237.1	3519.1
Intangible assets	542.7	598.2	441.6	337.2
Capital work in progress	121.1	93.4	158.2	400.4
Intangible assets under development	218.3	119.9	198.3	118.2
Goodwill on consolidation	325.9	325.9	325.9	325.9
Long-term loans and advances	685.4	552.5	433.5	314.7
Other non-current assets	4.6	33.6	19.4	42.9
Current Assets	**5204.6**	**6504.3**	**5336.0**	**5000.2**
Inventories	2654.6	2676.7	2257.7	1894.3
Trade receivables	1747.8	3104.0	2479.5	2315.9
Cash and bank balances	286.3	347.2	183.6	289.0
Short-term loans and advances	477.5	371.2	405.7	477.1
Other current assets	38.4	5.2	9.6	23.8
Total Assets	**11719.5**	**12865.7**	**11149.9**	**10058.5**

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