

September 28, 2023

**MANAGEMENT MEET** | Sector: Building Materials

# Carysil Ltd

## Demand to improve from hereon, maintain BUY!

We interacted with Mr. Anand Sharma- CFO of CARYSIL Ltd to understand the recent demand trends and business developments. Following are the Key Highlights from the same:

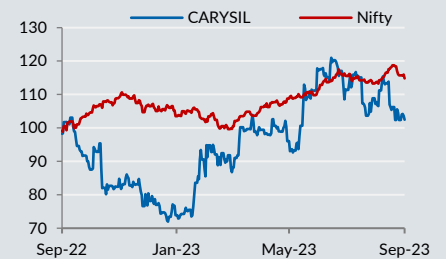
- Demand has started to improve with big box retailers rationalizing their inventory. Though demand from new homes is under pressure due to inflationary scenario in overseas markets, replacement demand has been the key driver. In developed nations viz. USA, UK Quartz sinks constitutes ~15-20% of total kitchen sinks.
- Globally 4-companies manufacture Quartz sinks via "German Technology", out of which 2 of them sell in their own brand and other 2 are into white-labelling. CARYSIL's current cost of production is ~30-40% cheaper as compared to other 3-manufacturers, this is enabling company to on-board new customers & expand their market share.
- The 200,000 Quartz sink expansion that company deferred in FY23, will be reconsidered by end of FY24 depending on the demand scenario. However, management is confident that the said capacity will be ready in 3-4months from zero date.
- Carysil Ltd is having a strong pipe-line of new customers, wherein company is in advance talks & could finalize the contracts in coming quarters.
- In domestic markets, awareness for Quartz sinks is very nascent. There are other companies selling Quartz sinks, however the dealer/market feedback about their quality are discouraging. Quality issues such as color fading, early chipping & development of cracks have been regular complaints. Management foresees, higher competition in domestic market will create better awareness about the product & due to better quality and brand-recall, Carysil should benefit from the same.
- Carysil Ltd is focusing on expanding their presence in domestic markets, company has increased its dealer network from ~1,500 to ~3,200 & opened ~85 galleries as display centers. Management stated that budgeted spends for Sales & distribution will be ~10% of domestic sales.
- Stainless steel sink's expanded capacity of 90,000sinks is now operational. ~30% of stainless steel sinks is exported & the same is likely to expand to 50% with on-boarding of new customers & adding new geographies.
- For stainless steel sink, Carysil Ltd is focused on Quadro & PVD sinks which forms ~50% of this biz. The price range of these products are ~20% & 40% higher as compared to base products.
- In appliance biz, Chimneys & Hobs constitute ~60% of this division's sale which is currently on outsourced model. However, with investment of ~Rs100 Mn each in phase I & II wherein 1 lakh units in each phase will be added. Company plans to manufacture these products in-house which will enable them to have better control over quality & give them the flexibility to introduce new designs & high-tech products. In year-1 company aims to reach Rs600-700Mn turnover & by year-2 the same should grow to Rs1Bn+. Carysil Ltd has entered into technical collaboration to introduce new age products in the segment.

Reco	: BUY
CMP	: Rs 614
Target Price	: Rs 799
Potential Upside	: +30%

### Stock data (as on September 28, 2023)

Nifty	19,524
52 Week h/l (Rs)	740 / 431
Market cap (Rs/USD mn)	16655 / 200
Outstanding Shares (mn)	27
6m Avg t/o (Rs mn):	53
Div yield (%):	0.3
Bloomberg code:	CARYSIL IN
NSE code:	CARYSIL

### Stock performance



	1M	3M	1Y
Absolute return	-4.4%	-12.6%	4.3%

### Shareholding pattern (As of June'23 end)

Promoter	43.8%
FII+DII	7.1%
Others	49.1%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	799	799

### Δ in earnings estimates

	FY24e	FY25e
EPS (New)	24.6	36.3
EPS (Old)	24.6	36.3
% change	-	-

### Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	5,939	6,829	8,905
YoY Growth	22.7	15.0	30.4
EBIDTA	1,074	1,263	1,692
EBIDTA(%)	18.1	18.5	19.0
PAT	529	659	972
YoY Growth	(19.0)	24.7	47.4
ROE	17.4	17.9	20.8
EPS	19.2	24.6	36.3
P/E	23.3	25.0	17.0
BV/Share	113.3	137.9	174.3
P/BV	3.9	4.5	3.5

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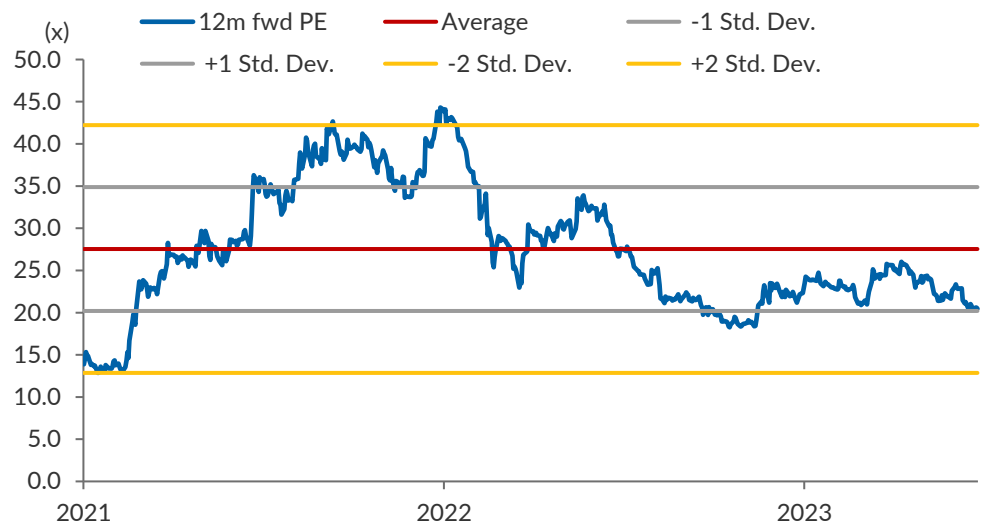
VICKY WAGHWANI, Associate

- In faucets, company currently has capacity of 10,000units which they plan to expand to 100,000 units in future. The acquisition of TAP FACTORY is to introduce the technology that acquired company possesses in Indian markets. Management stated that these faucets will be a good extension to their Kitchen sink business.
- Management reiterated their revenue guidance of Rs10Bn by FY25 with EBITDA margins of 20%. In order to achieve the revenue target, company will look for inorganic growth. However, management is focused on maintaining their Debt/EBITDA below 2.5x & D/E below 1x.
- Company's total debt is Rs2.2Bn including the working capital debt of Rs1Bn, the average cost of debt is ~7-7.5%.

## Our View:

CARYSIL Ltd has witnessed multiple headwinds in past 4-quarters due to recessionary trends in global markets impacting overall demand. However, with inventory-levels normalizing at customer end & replacement demand regaining traction, we expect CARYSIL's performance to improve from hereon. Moreover, with on-boarding of new customers the Quartz sink (52% of revenue) segment will witness healthy growth. Management aims to sell 600,000 Quartz sinks in FY24 (Q1FY24 sales was 104,000 units). The incremental 90,000units capacity of stainless steel sink (13% of revenue) has also commenced operations, we reckon this will further boost company's revenue as orders from export markets are picking-up for this product. Appliance segment (11% of revenue) will improve meaningfully post on-going capacity expansion; hence we expect higher growth for this segment from FY25E. Overall we expect company's Revenue to grow by 22%CAGR over FY23-FY25E. Moreover, with steady input cost & better operational utilization, EBITDA margins should come in at 18.5%/19% in FY24E/FY25E respectively. At CMP, the stock trades at P/E(x) of 25x/17x on FY24E/F25E EPS of Rs24.6/36.3 respectively & we continue to value the company at P/E(x) of 22x on FY25E EPS maintaining our target price of Rs799. Hence, we retain our BUY rating on the stock.

## Exhibit 1: 1-year forward P/E (x) chart



Source: Company, YES Sec

## FINANCIALS

### Exhibit 2: Income Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E
Sales	4,839	5,939	6,829	8,905
COGS	2,095	3,024	3,449	4,452
COGS %sales	43.3	50.9	50.5	50.0
GP	2,745	2,915	3,380	4,452
GP%	56.7	49.1	49.5	50.0
EBITDA	1,033	1,074	1,263	1,692
EBITDA%	21.4	18.1	18.5	19.0
Depreciation	177	263	287	327
Finance Cost	96	145	155	155
Other Income	101	16	57	86
PBT	861	681	879	1,296
Tax	208	153	220	324
PAT	653	529	659	972
PAT%	13.5	8.9	9.7	10.9

Source: Company, YES Sec

### Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E
Share Capital	53	54	54	54
Reserves	2,484	2,980	3,640	4,612
Equity	2,537	3,034	3,693	4,665
Non-current liab	539	949	1,592	1,592
Payables	794	784	900	1,162
Provisions	16	10	10	10
Other current Liab	1,616	2,273	1,630	1,630
<b>Total Equity &amp; Liab</b>	<b>5,533</b>	<b>7,123</b>	<b>7,898</b>	<b>9,132</b>
Gross Block	2,657	3,334	3,634	4,134
Acc Dep	974	1,237	1,524	1,851
Net Block	1,683	2,097	2,110	2,283
CWIP	207	137	254	289
Other Noncurrent	566	1,280	1,280	1,280
Inventory	1,042	1,306	1,339	1,728
Receivables	1,004	1,031	1,170	1,525
Cash & Bank	113	102	575	856
Loans	3	3	3	3
Other	915	1,167	1,167	1,167
<b>Total Assets</b>	<b>5,533</b>	<b>7,123</b>	<b>7,898</b>	<b>9,132</b>

Source: Company, YES Sec

## Exhibit 4: Cash Flow

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E
PBT	653	528	879	1,296
Depreciation & Amortization	177	264	287	327
Finance cost	96	145	155	155
(Incr)/Decr in Working Capital	(456)	(257)	(56)	(483)
Taxes	(191)	(138)	(220)	(324)
<b>Cash from ops.</b>	<b>517</b>	<b>712</b>	<b>1,045</b>	<b>970</b>
(Incr)/ Decr in PP&E	(731)	(577)	(417)	(535)
<b>Cash Flow from Investing</b>	<b>(725)</b>	<b>(1,365)</b>	<b>(417)</b>	<b>(535)</b>
(Decr)/Incr in Borrowings	360	836	-	-
Finance cost	(95)	(144)	(155)	(155)
<b>Cash Flow from Financing</b>	<b>184</b>	<b>641</b>	<b>(155)</b>	<b>(155)</b>
<b>Incr/(Decr) in cash</b>	<b>(24)</b>	<b>(12)</b>	<b>473</b>	<b>281</b>
Cash and cash equivalents at beginning of year	77	53	102	575
Cash and cash equivalents at end of year	53	41	575	856

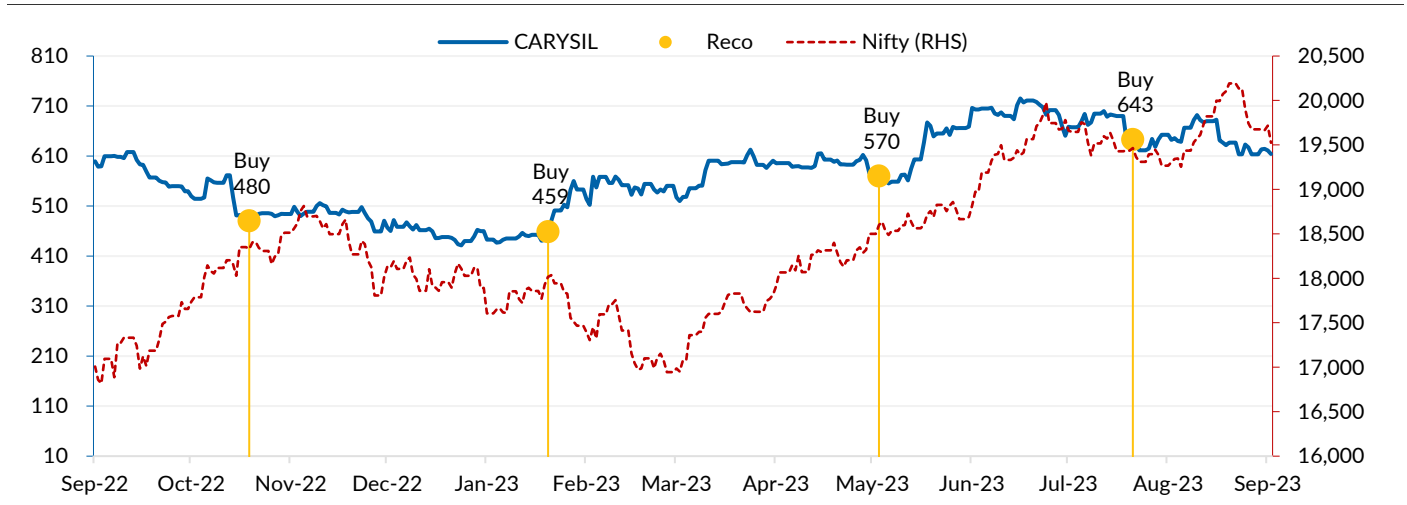
Source: Company, YES Sec

## Exhibit 5: Ratios

Key Ratios	FY22	FY23	FY24E	FY25E
<b>Growth (%)</b>				
Total Sales	56.2	22.7	15.0	30.4
EBIDTA	57.1	3.9	17.6	33.9
EBIT	56.5	(13.6)	25.1	40.3
PAT	66.0	(19.0)	24.7	47.4
<b>Profitability (%)</b>				
GP Margin	56.7	49.1	49.5	50.0
EBIDTA Margins	21.4	18.1	18.5	19.0
EBIT Margins	19.8	13.9	15.1	16.3
PAT Margins	13.5	8.9	9.7	10.9
ROCE	31.1	20.8	19.6	23.2
ROE	25.7	17.4	17.9	20.8
<b>Per Share Data (Rs)</b>				
EPS	24.5	19.2	24.6	36.3
CEPS	31.1	29.6	35.4	48.5
BVPS	95.2	113.3	137.9	174.3
<b>Valuations (x)</b>				
P/E (x)	18.2	23.3	25.0	17.0
P/CEPS (x)	14.4	15.1	17.4	12.7
P/BV (x)	4.7	3.9	4.5	3.5
EV/EBIDTA	12.8	13.1	14.3	10.5
<b>Gearing Ratios</b>				
Debt/Equity	0.5	0.7	0.6	0.5
Net Debt/Equity	0.5	0.7	0.4	0.3
Net Debt/EBIDTA	1.2	2.0	1.3	0.8
Int Coverage	10.0	5.7	6.7	9.4
<b>WCC Days</b>				
Debtors	69	63	63	63
Inventory	138	142	142	142
Creditors	106	95	90	90

Source: Company, YES Sec

## Recommendation Tracker



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**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

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