



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

22 February 2023

Carysil

Global aspirations in kitchen and bathroom products

INITIATING COVERAGE

Sector: Building Materials Rating: BUY

CMP: Rs 500 Target Price: Rs 705

Stock Info

Sensex/Nifty	60,673/17,827
Bloomberg	CARYSIL IN
Equity shares (mn)	26.7
52-wk High/Low	869/433
Face value	Rs 2
M-Cap	Rs 13.3bn/USD 161mn
3-m Avg turnover	USD 0.4mn

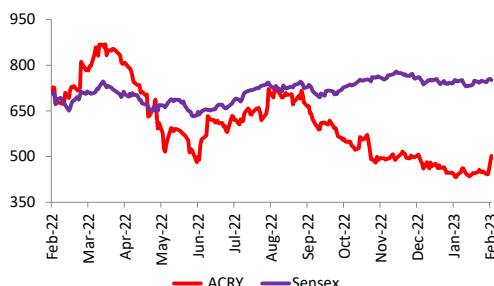
Financial Snapshot (Rs mn)

Y/E Mar	FY23E	FY24E	FY25E
Net sales	6,200	7,627	9,266
EBITDA	1,137	1,455	1,832
OPM %	18.3	19.1	19.8
PAT (adj.)	561	715	941
EPS (Rs)	21.0	26.8	35.2
PE (x)	23.8	18.7	14.2
P/B (x)	4.4	3.6	2.9
EV/EBITDA (x)	13.8	11.0	8.8
RoE (%)	18.4	19.3	20.6
RoCE (%)	18.4	18.6	20.5
Net-D/E (x)	0.7	0.7	0.6

Shareholding Pattern (%)

	Dec'22	Sep'22	Jun'22
Promoter	43.9	43.9	43.9
- Pledged			
FII	0.3	0.3	0.3
DII	6.5	6.4	6.2
Others	49.4	49.5	49.6

Stock Performance (1-year)



We initiate coverage on Carysil (CARYSIL) with a BUY rating and a target price of Rs 705 (40% upside potential), based on 20x FY25E EPS of Rs 35. The scrip has corrected by >40% since Apr'22, on fear of global demand slowdown. Impacted by channel de-stocking, the company has been reporting weak performance since 2QFY23. But we expect a strong rebound 4QFY23 onwards, considering its strong order book and volume visibility with large global customers. CARYSIL aspires to become a global one-stop shop for all kitchen and bathroom lifestyle products. Post strong 22%/32%/52% CAGR in revenue/EBITDA/PAT over FY17-22 (on a ~700bps EBITDA margin expansion to ~21% and forex gains), we estimate 24%/21%/13% CAGR over FY22-25E, expecting ~20% EBITDA margin and higher interest costs (rise in debt). Regular capacity addition and working capital needs will likely limit OCF/EBITDA at ~60% level; healthy RoE (~20%) will be maintained though.

A global leader in quartz sinks; leveraging global presence through adjacent categories: CARYSIL is the only Asian, and among the four global manufacturers of quartz sinks using Schock technology (industry CAGR: 20%+). To leverage its vast global presence, the company has widened its product portfolio over the years by adding adjacent categories such as steel sinks (Quadro and PVD range), kitchen appliances, countertops and bathroom fittings. It is also exploring new categories of ceramic sinks via the organic and inorganic routes. We expect CARYSIL to gain market share from large European peers, who are currently grappling with energy crisis.

Vast cross-selling opportunities with global customers, STL (UK): CARYSIL is into white label manufacturing for large home retailers and big brands like Kraus and Karren for their online supplies. In 2019, the company entered into an agreement with Grohe to supply quartz sinks, and extended the same in 2020 to supply stainless steel kitchen sinks as well. It began supplying quartz sinks to IKEA in 2021 for its global requirements, which is progressing well. From small quantities, we expect CARYSIL to expand its business with large customers multifold, as it adds new products and supplies for global requirements. Its STL UK acquisition would help it broaden its kitchen and bathroom offerings, by leveraging its loyal customer base.

Distribution, product portfolio expansion to drive domestic business: Domestic revenue grew 35% YoY to Rs 1bn in 9MFY23, contributing 22% to total revenue. With focus on in-house manufacturing, innovative products, projects, branding, marketing, and channel expansion (2x in last one year; expects to touch 3,000 dealers and 100+ distributors by Mar'23), CARYSIL aims 30% CAGR in domestic sales over 3-5 years.

US and UK markets recover; focus now on Gulf: Primary demand for sinks has recovered in the UK and US markets, after channel inventories corrected there in last few quarters. However, most of Europe continues to face demand challenges. Management expects strong rebound in sales 4Q onwards, based on its robust order book position. Regular participations in exhibitions globally (recently in Dubai and France) enable it to add new customers. CARYSIL plans to expand its presence in Dubai (set up showrooms) to improve brand visibility and expand in GCC countries.

Large capex ahead of demand to drive growth: Large capacity additions in quartz sinks over last 3-4 years have helped CARYSIL add large global retailers as customers and expand rapidly. It has also doubled its stainless steel sink capacity in FY23. Before coming on board, customers judge existing spare capacities to gauge comfort on sustained supply. CARYSIL expects to use a recently acquired land parcel (60 acres) near its Bhavnagar plants for existing and new product lines.

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Investors are advised to refer disclosures made at the end of the research report.

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Story in charts...

Exhibit 1: Increasing product portfolio

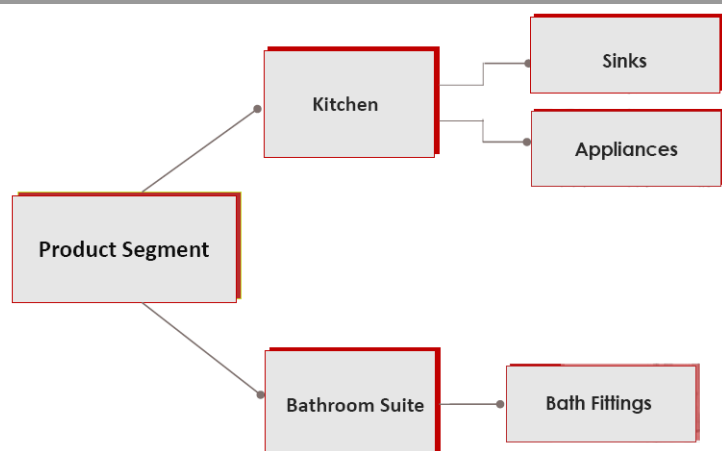


Exhibit 2: Revenue mix

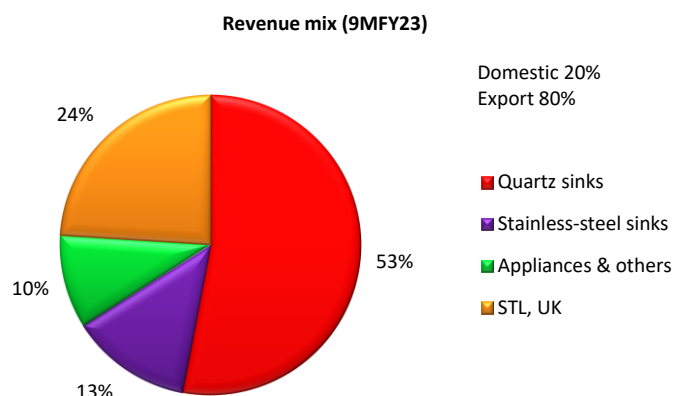


Exhibit 3: Quartz sink – volume trend

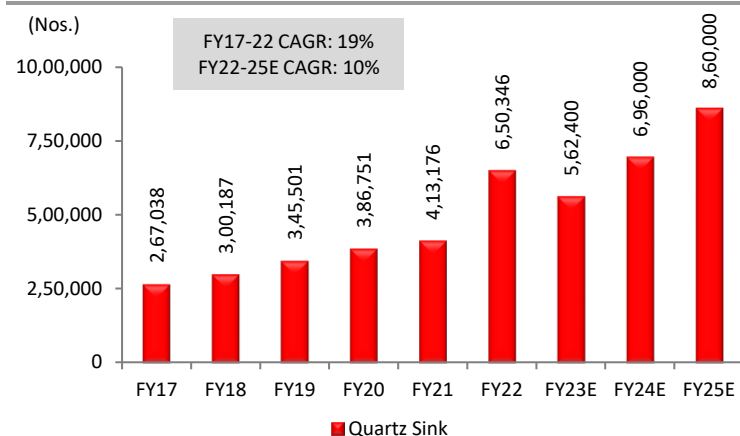


Exhibit 4: Stainless Steel sink – volume trend

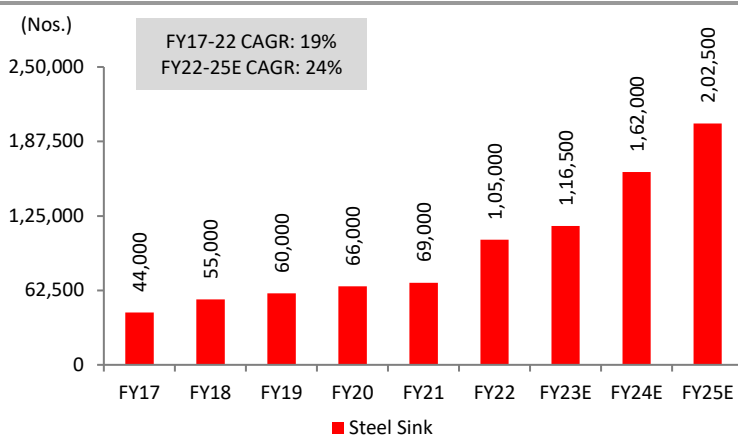


Exhibit 5: Revenue mix trend (category-wise)

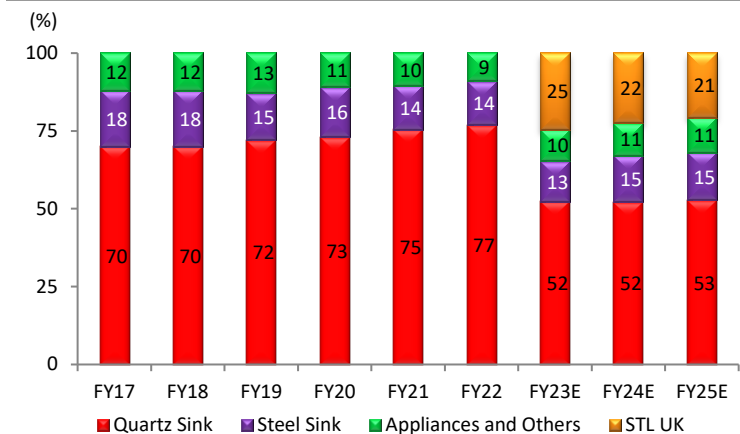
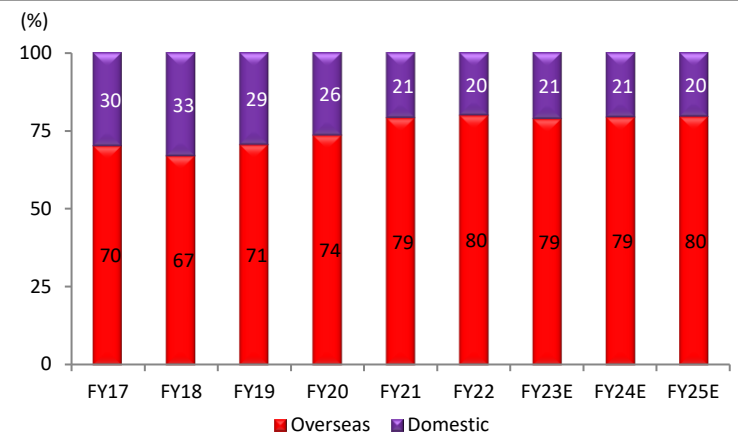


Exhibit 6: Revenue mix trend (geography-wise)



Source: Company, Systematix Institutional Research

Exhibit 7: Revenue, EBITDA margin trend

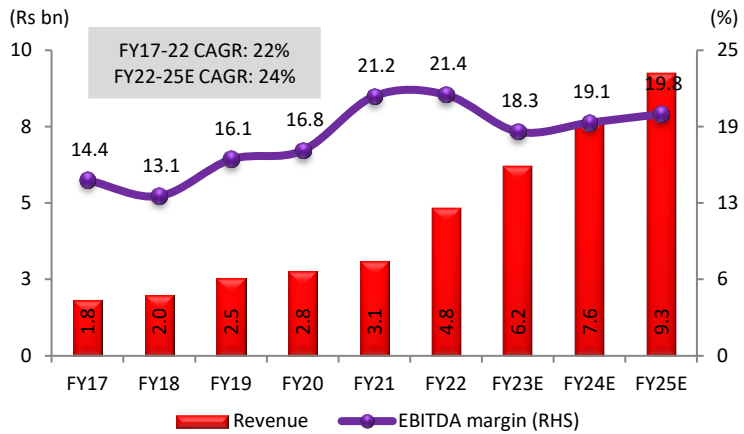


Exhibit 8: PAT and margin trend

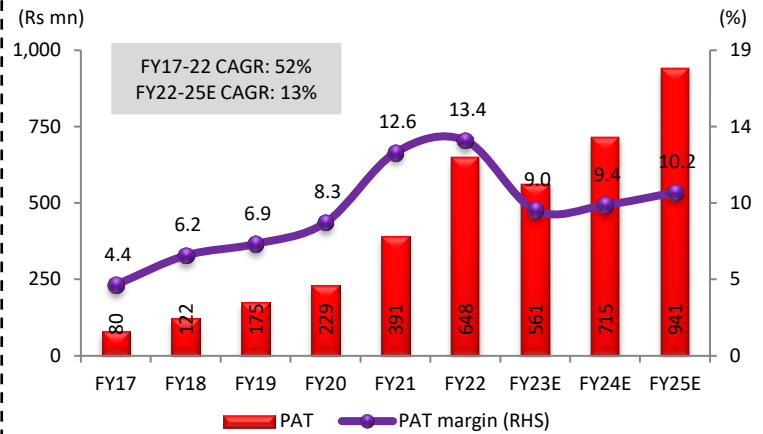


Exhibit 9: RoE, ROCE trend

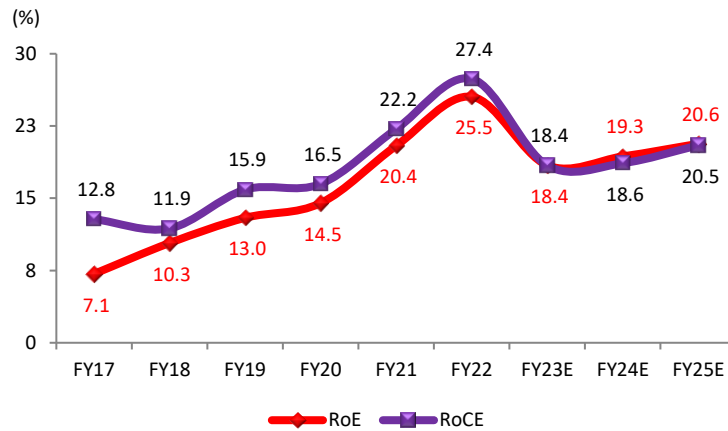


Exhibit 10: Capex has intensified since FY21

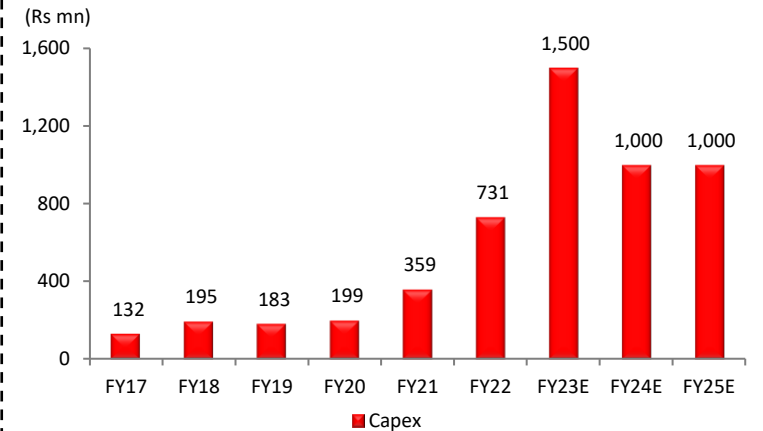


Exhibit 11: OCF/EBITDA trend

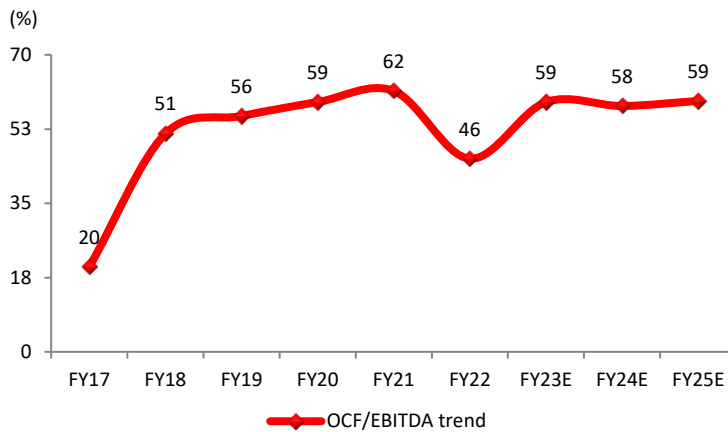
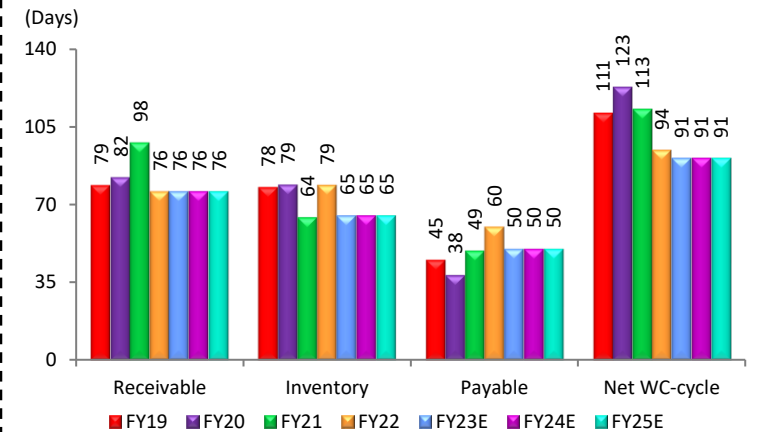


Exhibit 12: Net working capital cycle trend

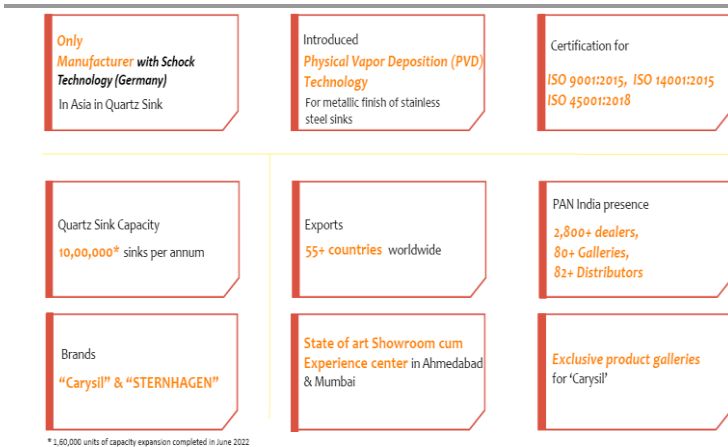


Source: Company, Systematix Institutional Research

CARYSIL – An overview

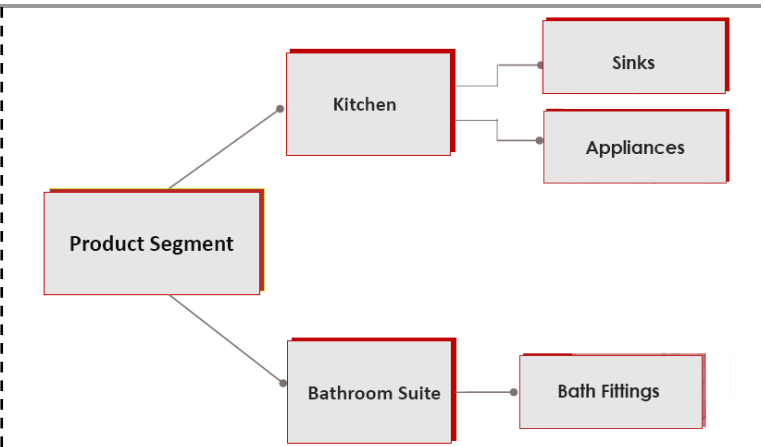
CARYSIL is the only company in Asia, and among the four companies worldwide to manufacture quartz kitchen sinks with Schock Technology (Germany). It also manufactures stainless steel kitchen sinks with core focus on Quadro sinks (value-added premium products). In line with its aim to grow into a complete kitchen and bathroom solutions provider, the company is expanding its product portfolio such as kitchen appliances, slab surfaces and bathroom fittings, etc. Nearly 80% of CARYSIL's revenues are generated from outside India. Acquisitions in the UK market and onboarding of global retail giants such as IKEA, Grohe, Menard as its customers in last 2-3 years should continue to drive its overseas business, even as its domestic business sees robust traction.

Exhibit 13: CARYSIL at a glance



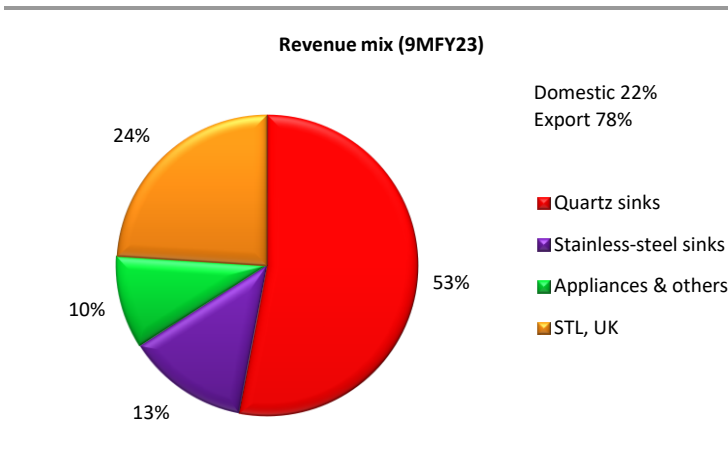
Source: Company, Systematix Institutional Research

Exhibit 14: Kitchen and Bathrooms – key focus segments



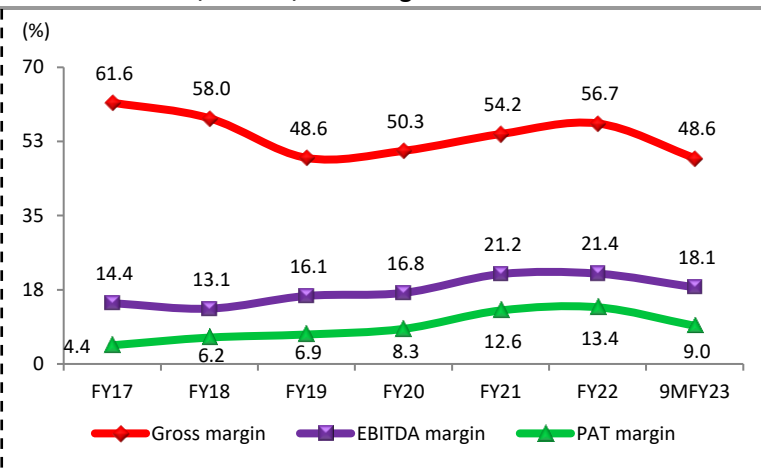
Source: Company, Systematix Institutional Research

Exhibit 15: Revenue mix



Source: Company, Systematix Institutional Research

Exhibit 16: Gross, EBITDA, PAT margin trend



Source: Company, Systematix Institutional Research

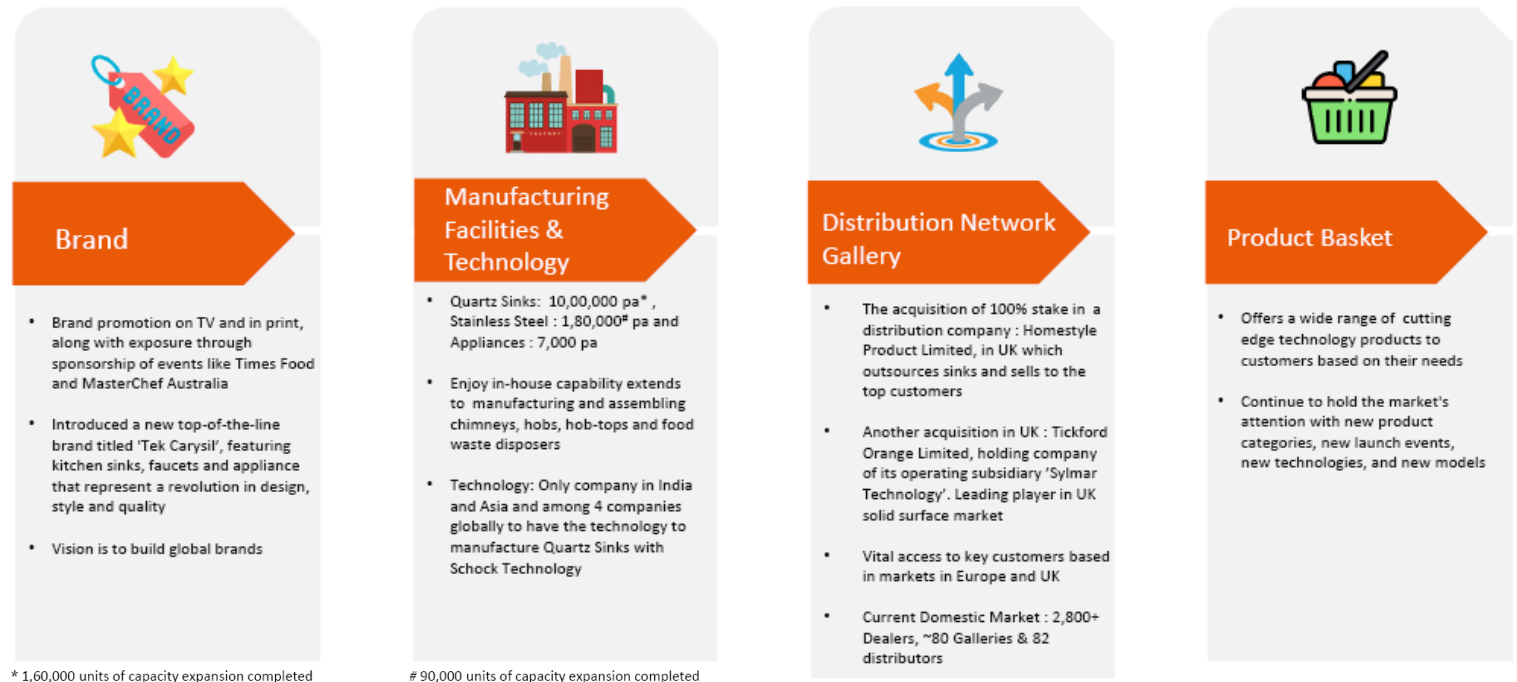
Key shareholders: Abakkus Emerging Opportunities Fund-1 (6.1%), Ashish Kacholia (3.7%)

Exhibit 17: CARYSIL – Management profile

Name	Designation	Remarks
Mr. Chirag A. Parekh	CMD	Mr. Parekh is the CMD of the company since 2008. He joined the company in 1993, and successfully steered it into one of the leading brands in kitchen sinks. He holds a BBA Degree from European University.
Mr. Anand Sharma	CFO & COO	Mr. Sharma joined CARYSIL in 2015, and is a CA, CS and CMA. In more than 20 years of professional career, he has occupied leadership positions at various companies, including SR Batliboi.

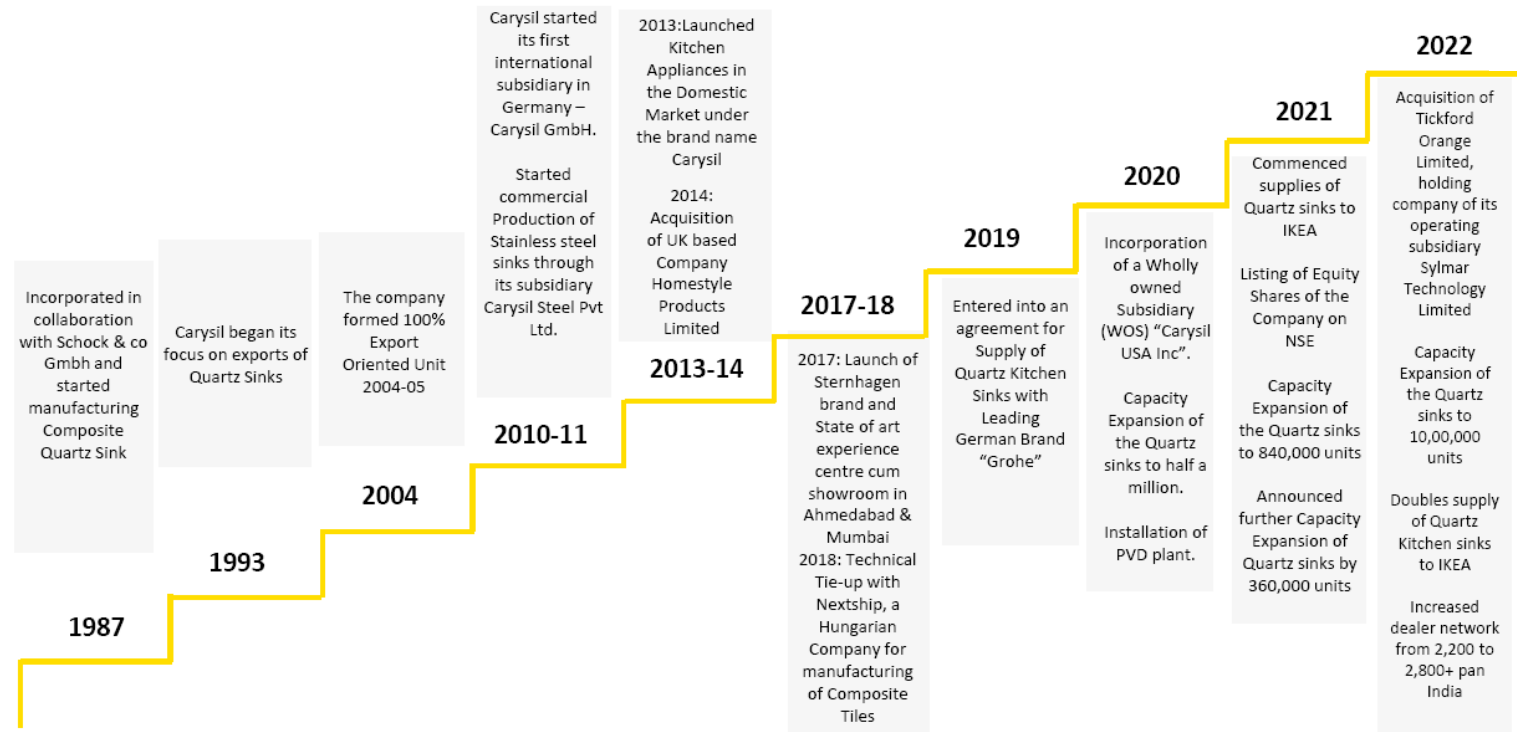
Source: Company

Exhibit 18: Pillars of integrated business



Source: Company

Exhibit 19: CARYSIL's journey over the years



Source: Company

Recent performance and management focus

CARYSIL's performance has been weak since 2QFY23 due to muted demand from its key global customers, mainly in quartz sinks. This is because these customers chose to normalise the high inventory levels built during COVID-19 period. In 3Q, although UK and the US markets posted healthy recovery, key European countries such as Germany remained embroiled in demand challenges. Management's expectation of a strong rebound in sales 4Q onwards stems from normalisation of channel inventory and company's robust order book position. Regular participation in exhibitions globally (recently in Dubai and France) helps it in adding new customers. CARYSIL also plans to expand its presence in Dubai (set up showrooms) to improve brand visibility and expand in GCC countries.

Exhibit 20: CARYSIL - Quarter results (consolidated)

(Rs mn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Total Income	1,280	1,389	1,713	1,392	1,378	8	(1)	4,483	3,450	30
Raw material costs	542	581	898	706	702	29	(1)	2,306	1,513	52
Employee costs	82	98	110	105	122	49	16	337	238	42
Other expenses	377	428	367	357	304	(19)	(15)	1,028	947	9
EBITDA	279	282	337	224	250	(10)	11	812	751	8
Depreciation	47	50	60	62	70	48	14	191	127	50
Finance costs	23	34	30	38	40	75	4	107	62	74
Other income	22	22	1	3	2	(93)	(40)	6	79	(93)
PAT after JVs	173	164	187	92	121	(30)	30	400	484	(17)
EPS (Rs)	6.5	6.1	7.0	3.5	4.5	(30)	30	15.0	18.1	(17)
As % Total Income						YoY (bps)	QoQ (bps)			YoY (bps)
Gross margin	57.7	58.2	47.6	49.3	49.1	(858)	(21)	48.6	56.1	(757)
Employee costs	6.4	7.0	6.4	7.5	8.8	244	128	7.5	6.9	62
Other expenses	29.4	30.8	21.4	25.6	22.1	(734)	(353)	22.9	27.5	(452)
EBITDA margin	21.8	20.3	19.7	16.1	18.2	(368)	203	18.1	21.8	(367)
ETR (% PBT)	24.9	24.8	24.6	26.1	14.6	(1,031)	(1,155)	22.2	24.0	(174)
PAT	13.6	11.9	11.0	6.8	8.8	(479)	205	9.0	14.1	(513)
Revenue break-up						YoY (%)	QoQ (%)			YoY (%)
Exports	994	1,148	1,333	1,065	1,092	10	3	3,490	2,716	29
Domestic	286	241	380	327	286	-	(13)	993	734	35
Revenue mix (%)										
Exports	78	83	78	77	79			78	79	
Domestic	22	17	22	23	21			22	21	
Segment Revenue						YoY (%)	QoQ (%)			YoY (%)
Quartz Sink	1,000	1,076	1,050	704	622	(38)	(12)	2,376	2,650	(10)
Steel Sink	185	167	164	209	210	14	1	583	510	14
Appliances and Others	95	146	162	148	138	45	(7)	448	290	55
STL UK	-	-	337	331	408	-	24	1,076	-	
Revenue Mix (%)										
Quartz Sink	78.1	77.5	61.3	50.6	45.1			53.0	76.8	
Steel Sink	14.5	12.1	9.6	15.0	15.3			13.0	14.8	
Appliances and Others	7.4	10.5	9.5	10.6	10.0			10.0	8.4	
STL UK	-	-	19.7	23.8	29.6			24.0	-	

Source: Company, Systematix Institutional Research

Investment Rationale

A global leader in the fast-growing quartz sink industry

CARYSIL is the only Asian and one of the four manufacturers globally that makes quartz sink using Schock technology. Schock & Co. (Germany) is an innovator of quartz sinks, and has shared its technology with only two other players globally, i.e. Blanco (US) and Franke (Switzerland), apart from CARYSIL. We expect muted demand in last few quarters to reverse, and see strong rebound in the coming quarters. CARYSIL should be able to garner market share from large European peers, presently grappling with high energy costs. Robust order book visibility from global retailers too would drive CARYSIL's performance, in our view.

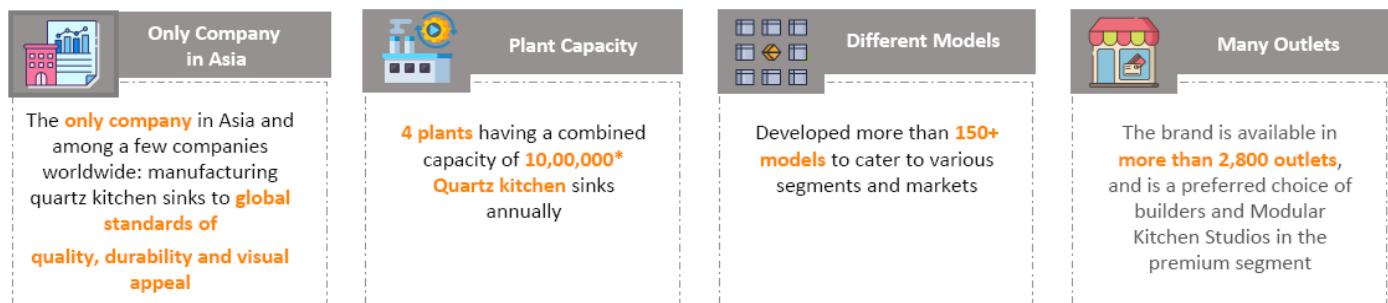
Strong prospects for quartz sinks in the industry

The global kitchen sink market, valued at USD 3.2bn in 2021, is anticipated to post 4% CAGR over 2021-2025. Steel sinks constitute about 80% of the 80–90mn units of the global kitchen sink market in the industry. Within this, quartz sink is an 8-9mn units market (~10% of the global industry), of which, 6–7mn units are manufactured using Schock's technology. While quartz sinks are well accepted in developing countries such as the US, Europe, etc., these sinks are gaining traction in developing countries like India too. At expected 25% CAGR, quartz sinks should command 20% share of the global sink market over the next five years (from ~3% a decade ago).

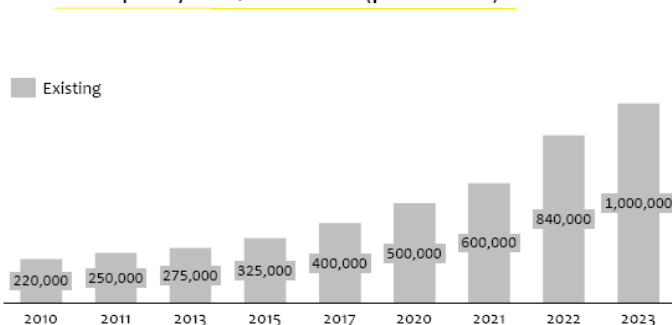
Quartz sinks are premium quality products encompassing characteristics like durability, visual appeal and less noisy on use. Technology and know-how are strong moats for manufacturers and barriers to entry in the quartz sink market. Demand for quartz sinks (growing faster than the stainless steel industry) soared in last 2-3 years, especially during the COVID times, as people spent a lot of time at home and used huge money on home-improvement products. Significant rise in stainless sinks on soaring steel prices also aided the faster shift.



Exhibit 21: CARYSIL – The only company to make quartz sinks in Asia with german technology



Capacity of Quartz Sinks (per annum)



High Margin Product

Asset Turnover
~3 times

Longevity of Assets Moulds
~15 years

Huge Market Potential for Quartz Sinks

"Globally there are only 4 players producing Quartz Sinks with schock technology. 80-85% of the industry makes use of Stainless Steel and only 8-10% makes use of Quartz Sinks"

Source: Company

Exhibit 22: CARYSIL's positioning in the global quartz sink industry

	('000 units)
Global sink market	90,000
Quartz sink (Schock tech.) - global capacity	8,000
<i>Schock & Co. (Germany)</i>	2,500
<i>Blanco (US)</i>	2,000
<i>Franke (Switzerland)</i>	2,500
<i>Carysil (India)</i>	1,000
Carysil production volume (FY23)	605
Carysil's market share (%) *	9.5

Source: Company, Systematix Institutional Research *Market-share is based on 80% industry capacity utilisation

Strong rebound in demand for quartz sink FY24 onward

CARYSIL has been exhibiting weak performance since 2QFY23 due to muted demand from its key global customers (mainly in quartz sinks), who chose to normalise their high inventory built during the COVID-19 period. In 3Q, while UK and US markets posted healthy recovery, key European countries such as Germany were fraught with demand challenges. Management expects strong rebound in sales 4Q onwards, underpinned by robust order book visibility. The quartz sink division contributed ~53% to total revenues in 9MFY23, majorly through exports. Post 19%/23% volume/revenue CAGR over FY17-22, we expect the division to register low 10%/9% CAGR over FY22-25E, impacted by demand slowdown in FY23. However, a sound recovery is expected FY24 onwards, supported by a healthy order book from large customers such as Kraus, Karren, Grohe, IKEA etc. Continuous capacity additions would help spur CARYSIL's growth momentum over the next 5-10 years, in our view.

**Exhibit 23: Quartz sink – operating performance**

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	CAGR FY22-25E	CAGR FY17-22
Capacity (nos.)	4,00,000	4,00,000	4,00,000	5,00,000	6,00,000	8,40,000	10,00,000	12,00,000	14,00,000	19	16
CU (%)	67	75	86	77	69	77	56	58	61		
Sales volume (nos.)	2,67,038	3,00,187	3,45,501	3,86,751	4,13,176	6,50,346	5,62,400	6,96,000	8,60,000	10	19
YoY (%)	1	12	15	12	7	57	(14)	24	24		
Revenue (Rs mn)	1,331	1,432	1,814	2,017	2,338	3,727	3,236	3,975	4,884	9	23
YoY (%)	3	8	27	11	16	59	(13)	23	23		

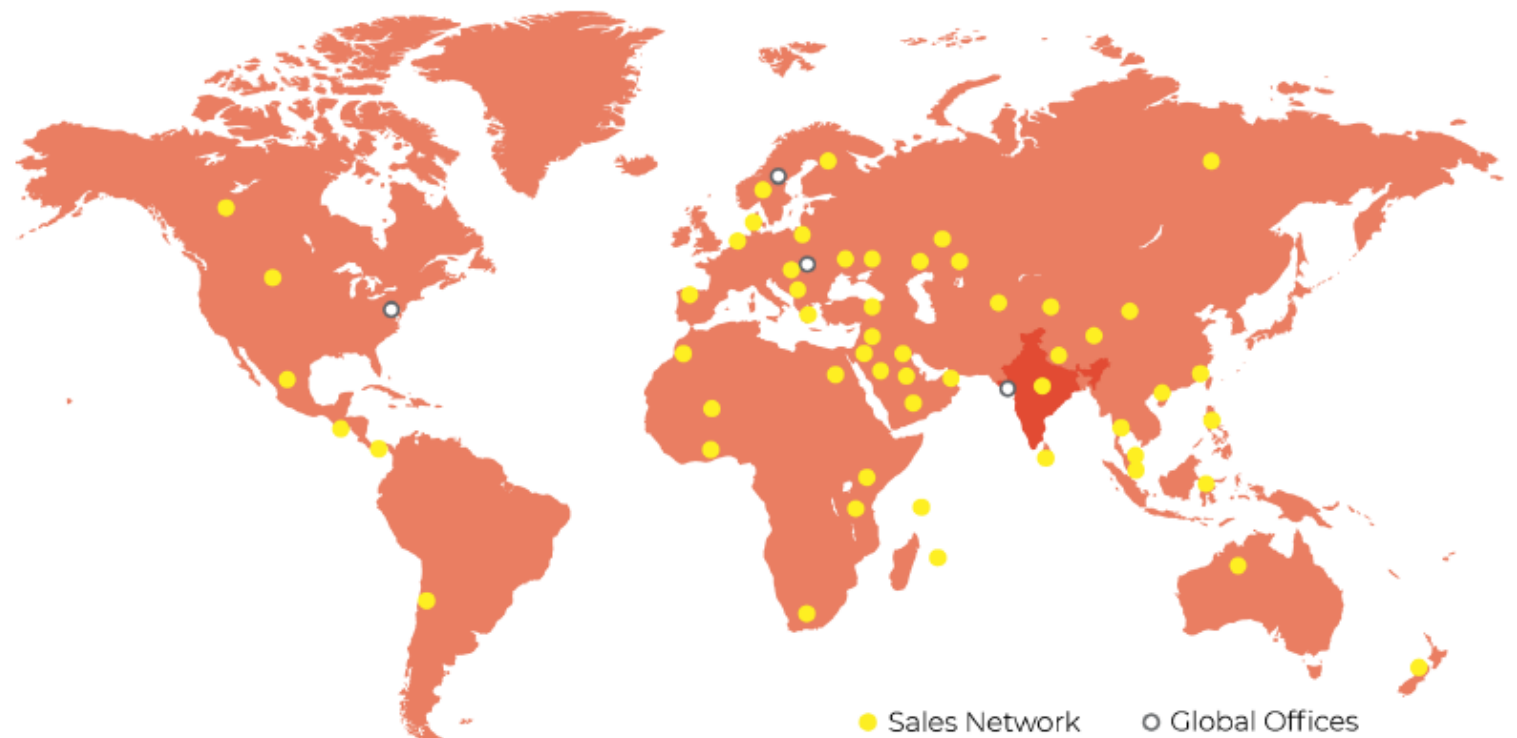
Source: Company, Systematix Institutional Research

Growth drivers

- **Increasing adoption:** While quartz sinks are well accepted in developing countries such as the US, Europe etc., these seem to be gaining traction in developing countries like India too. Changing consumer preferences towards premiumisation and aesthetics is driving the demand for quartz sinks in the overall sinks market. Sharp rise in steel prices too has hastened the shift in demand towards quartz sinks. This augurs well for CARYSIL, as the company is equipped with more than 150 models to cater to various segments and markets.
- **Competitive landscape:** Large manufacturers based out of Europe are grappling with manufacturing cost pressures owing to energy crisis. This has further widened the price gap with global peers from ~20% earlier to ~35% currently. These factors present significant opportunity to CARYSIL in attracting global retailers and gaining a hefty market share.

- **Global positioning:** CARYSIL is currently present in over 55 countries and plans to expand by acquiring new customers and penetrating in newer geographies. Its recently-added geographies like Australia, New Zealand, Gulf countries, Southeast Asia, China, Singapore, Turkey, Vietnam, etc., are witnessing huge traction in the business.
- **Customised moulds:** Moulds form an integral part of the quartz sink manufacturing process using the Schock technology. CARYSIL has 150+ moulds that can manufacture 400+ SKUs. These moulds are procured as per the design and quality needs of customers. All moulds are imported and can be used for more than 15 years.

Exhibit 24: Expanding global presence



Source: Company

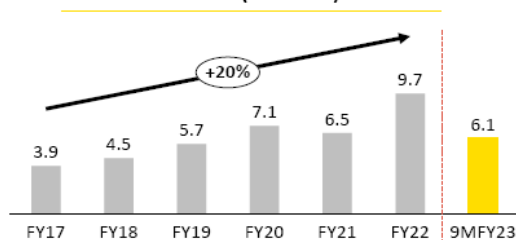
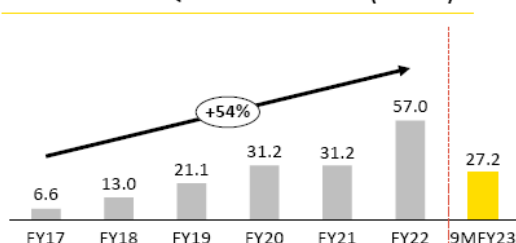
Exhibit 25: Subsidiaries details

Company	Relation	Revenue (Rs mn)				PAT (Rs mn)			
		FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22
Carysil Steel	Subsidiary	214.7	214.0	236.1	459.9	9.3	11.9	13.0	33.1
Sternhagen Bath	Subsidiary	-	-	-	-	(0.1)	(0.1)	(0.1)	(0.1)
Carysil GmbH - Germany	Subsidiary	35.6	64.5	58.4	96.7	(5.2)	10.2	26.9	6.7
Carysil Online (formerly, Acrysil Appliances)	Subsidiary	-	-	-	-	0.8	0.4	0.5	0.6
Carysil UK (Group)	Subsidiary	514.8	656.8	637.2	977.4	55.0	83.1	93.3	143.3
Carysil Products UK (formerly, Homestyle Products)	Stepdown-subsidiary	5.7	7.1	6.5	9.7	na	na	na	na
Carysil Surfaces (UK)	Stepdown-subsidiary								

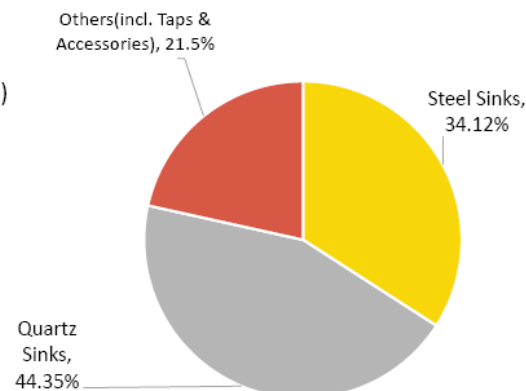
Source: Company * Carysil Surfaces (UK) was formed in Apr'22 to acquire TOL, UK.

Exhibit 26: Large presence in the UK market through subsidiaries

Carysil Ltd. holds 100% in **Carysil Products Ltd.** through Carysil UK Ltd.
The name of **Acrysil Products Ltd.** has been changed to **Carysil Products Ltd.**

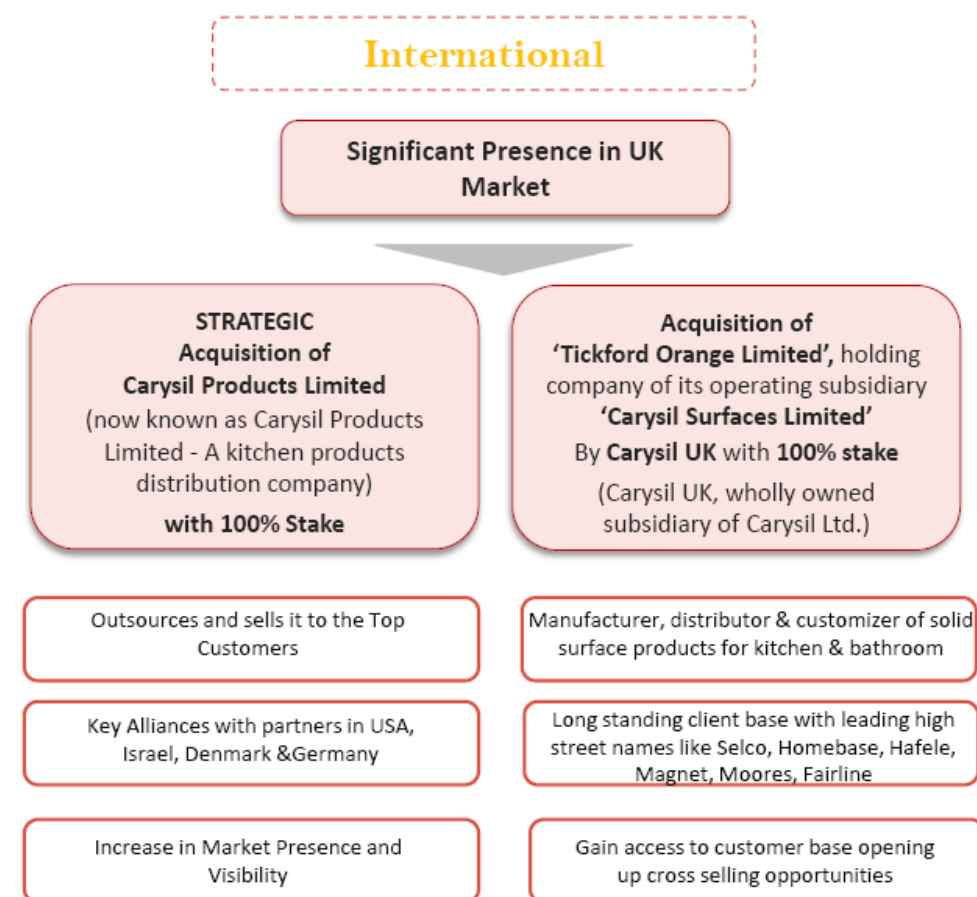
Revenues (Mn. GBP)**Revenues from Quartz Sink Business (Rs. Crs.)****Products sold under Carysil Products Ltd.**
(formerly known as HomeStyle UK)

1. Quartz Sinks
2. Steel Sinks
3. Others (Incl. Taps & Accessories)



9MFY23

Source: Company

Exhibit 27: UK market - distribution model

Source: Company

Expanding in adjacent categories to leverage global presence

To leverage its vast global presence, CARYSIL has widened its product portfolio over the years by expanding and adding adjacent categories such as steel sinks (Quadro and PVD range), kitchen appliances and countertops and bathroom fittings. It is also exploring newer categories of ceramic sinks via the organic and inorganic routes.

Stainless-steel kitchen sinks: The division contributed ~13% to CARYSIL's total revenues in 9MFY23. The company focuses more on the Quadro range of products, which are high-end value-added premium products known for their superior quality, design and finish. After healthy 19%/16% volume/value CAGR over FY17-22, we estimate 24%/28% CAGR over FY22-25E factoring in the significant capacity addition and fast ramp up on strong demand from key customers. Post agreement in 2019 to procure quartz sinks, Grohe also approved sourcing of stainless steel sinks later on.

Exhibit 28: Stainless steel sinks – operating performance

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	CAGR FY22-25E	CAGR FY17-22
Capacity (nos.)	75,000	75,000	75,000	90,000	90,000	1,10,000	1,80,000	1,80,000	2,70,000	35	8
CU (%)	68	72	80	73	77	95	65	90	75		
Sales volume (nos.)	44,000	55,000	60,000	66,000	69,000	1,05,000	1,16,500	1,62,000	2,02,500	24	19
YoY (%)		25	9	10	5	52	11	39	25		
Revenue (Rs mn)	326	354	378	442	435	679	817	1,136	1,420	28	16
YoY (%)	99	9	7	17	(2)	56	20	39	25		

Source: Company, Systematix Institutional Research

Exhibit 29: Stainless steel sinks – Quadro sinks are the focus area



Stainless-Steel Sinks

Contribution: 13% to Consolidated revenue*



Production Capacity

1,80,000 sinks per annum^; Commercial production 90,000 units to begin from March'23



Target Market for Quadro (Designer) Sinks

Caters to high end segment who are willing to pay a premium for superior quality, design and finish



Innovation

New innovative products like Micro Radius and Square Sinks



Acquisition of a distribution company

In the UK will help selling to the top customers in that country ; boosting exports



* 9MFY23 Consolidated Revenue ^ Completed Expansion of additional 90,000 units and expected to commercial production by March'23

Source: Company

Appliances and others: The division contributed ~10% to total revenues in 9MFY23. CARYSIL deals in a wide range of built-in kitchen appliances under the *CARYSIL* brand, and has a variety of kitchen chimneys, dishwashers, cook tops, built-in ovens, wine-chillers, etc. The company also offers bathroom solutions like premium sanitary ware, washbasins, composite 3D tiles to name a few, under its *Sternhagen* brand. Both brands roughly contribute 5% each to total revenue. From a currently outsourced model, the company plans to manufacture kitchen appliances in house, starting with hobs and hoods. It has hired IITians in its R&D team to focus on products with innovative features.

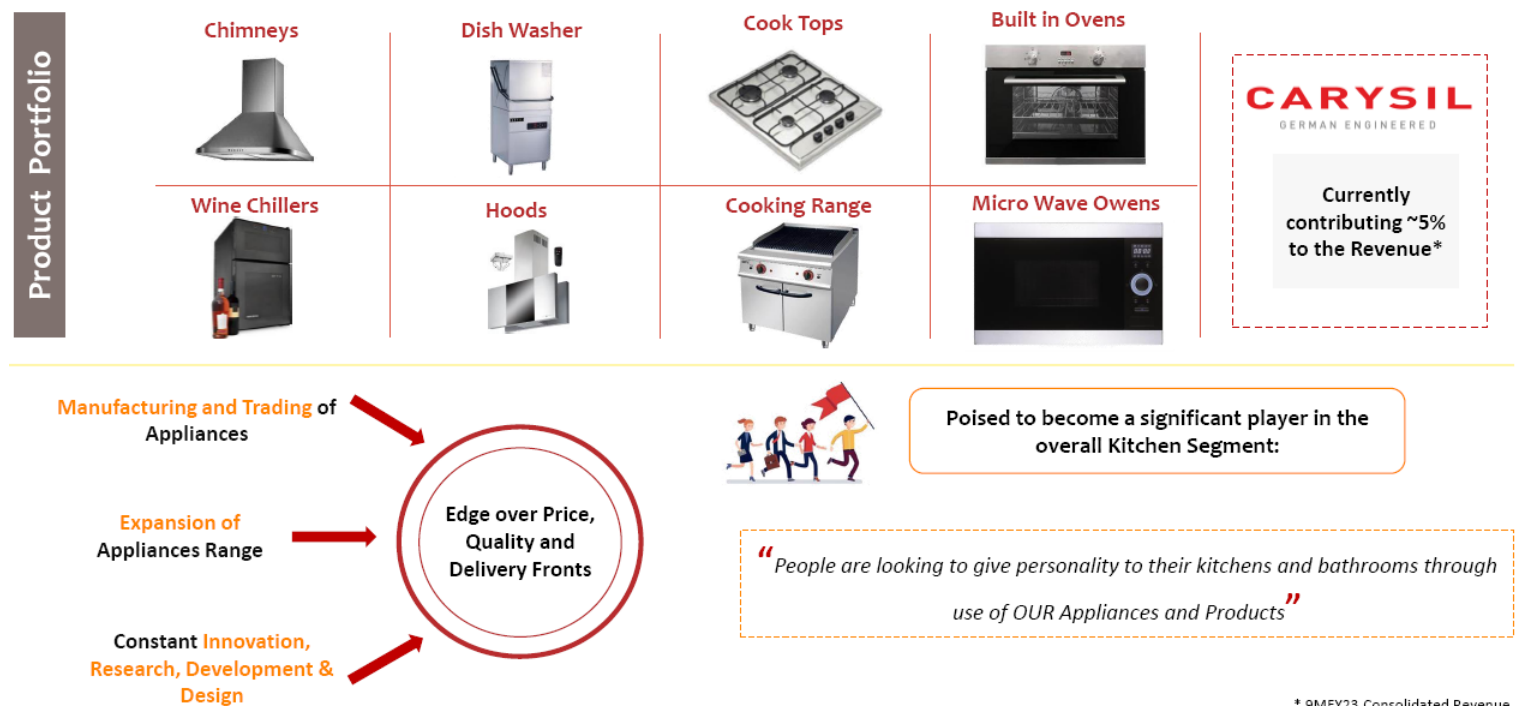
CARYSIL is also looking to expand in the innovative premium faucet category, which is largely imported in India. To start with, it is looking to assembling faucets and eventually manufacture them in house in future. Through B2C, CARYSIL is now also focussing on project sales and expects the vertical to contribute 50% of domestic revenue in 2-3 years (from ~20% currently) with healthy margins. It has identified relevant products to be launched and has allocated a separate sales team for these projects. After a 15% revenue CAGR over FY17-22, we expect the category to grow at a robust 34% CAGR over FY22-25E on the above factors.

Exhibit 30: Appliances and others – Operating performance

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	CAGR FY22-25E	CAGR FY17-22
Revenue (Rs mn)	217	236	324	303	324	436	620	806	1,048	34	15
YoY (%)	72	9	37	(7)	7	34	42	30	30		

Source: Company, Systematix Institutional Research

Exhibit 31: Kitchen appliances – multifold growth opportunity



* 9MFY23 Consolidated Revenue

Source: Company

Exhibit 32: Bath segment – Synergetic move to leverage quartz technology

FUNDAMENTALS OF THE BUSINESS

STERNHAGEN
GERMANY

- Brand owned by Carysil's Wholly owned Subsidiary in Germany, 'Carysil GmbH'
- 60+ Showrooms & SIS for displaying the products



Source: Company



Solid surface products: CARYSIL entered this product category by acquiring Tickford Orange Limited (TOL), UK, for ~Rs 1.1bn (~1x sales). TOL is the holding company of Sylmar Technology Limited (STL), a manufacturer, distributor and customiser of high-quality solid surface products for kitchen and bathroom, for both, domestic and commercial use. STL's manufacturing and distribution facility is centrally located in Derbyshire, UK. An asset-light and debt-free company, STL is a leading player in UK's solid surface market, enjoying an estimated 35% market share. STL has 3 key brands - *Maia*, *Minerva* and *Metis*.

CARYSIL expects the following benefits to accrue from the acquisition:

- Strengthening the UK business** by leveraging STL's strong relationships with leading high street names like Selco, Homebase, Hafele, Magnet, Moores, and Fairline, among others.
- Diversifying product portfolio** in the fast-growing home improvement market.
- Cross selling and brand building**, by accessing loyal customer base and potential new sales channels; open up avenues for widening geographical presence, introducing brands in the kitchen and bathroom segments to newer regions.
- Access to STL's fabrication technology**, through which it produces countertops seamlessly integrated with sink (one of its kind); aspires to bring this concept to Indian and other developing markets.
- Opening up large export prospects** in the European and US markets.

New products in the pipeline: CARYSIL launched its bio green sinks at an exhibition in Paris in Dec'22. This new range of quartz sinks having twice the strength of existing ones, would help reduce packaging costs, improve loadability and thereby reduce overall shipping costs. The company has filed patents for green sinks technology, which it expects to manufacture from organic materials such as charcoal, spinach, and beetroot. The pigmentation is natural and sustainable. It is also exploring innovative products in the ceramic sinks and kitchen appliances categories.

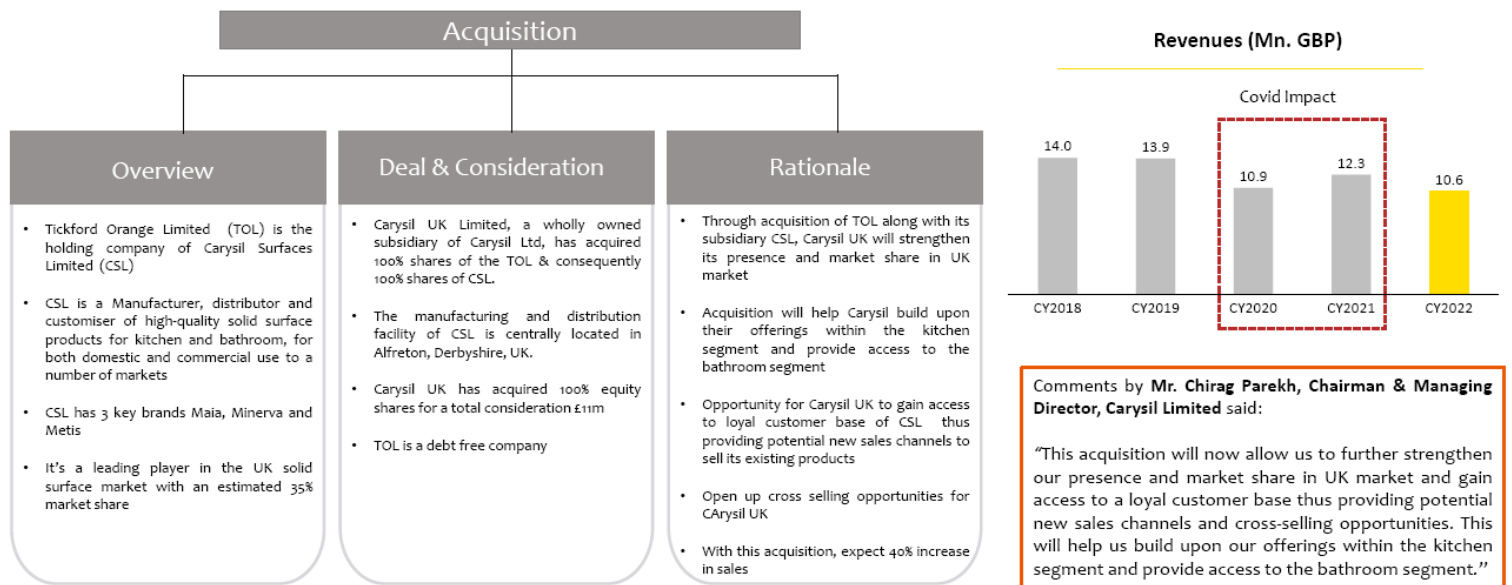
Exhibit 33: Sylmar Technologies (STL UK) – Operating performance

	FY21	FY22	FY23E	FY24E	FY25E	CAGR FY22-25E
Revenue (Rs mn)	1,100	1,200	1,526	1,709	1,914	17
YoY (%)	na	9	27	12	12	
EBITDA (Rs mn)	na	200	229	256	306	15
EBITDA margin (%)	na	16.7	15.0	15.0	16.0	
PBT (Rs mn)	na	180	214	239	278	16
PBT margin (%)	na	15.0	14.0	14.0	14.5	

Source: Company, Systematix Institutional Research * STL acquisition is effective from Apr 1, 2022.

Exhibit 34: Acquisition of STL to strengthen presence in UK and will likely catapult CARYSIL into a new growth orbit

The acquisition is a natural and strategic fit for Carysil and will catapult the Company into new orbit of growth



Source: Company

Exhibit 35: STL's product picture

Source: Company

Vast cross-selling opportunities with global retailers, STL (UK)

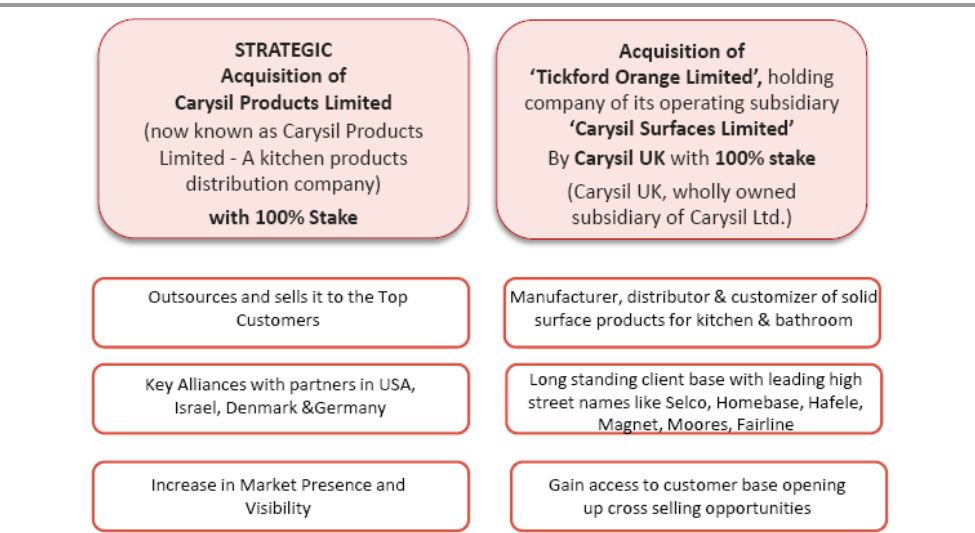
CARYSIL’s business heavily depends on its key large global customers for whom it does white-label manufacturing. Over the last few years, the company has added several large global brands (Kraus, Karren) and retailers (IKEA, Grohe, Menard, etc.) that provide strong growth visibility over a long period. STL, UK is looking to build on offerings within the kitchen segment, and provide access to the bathroom segment, in addition to providing access to its loyal customer base for cross-selling opportunities.

CARYSIL’s international tie-ups have the paved way towards deeper penetration into core markets, such as the UK, US, France and Germany, among others. Its recent entry into the new Australian and Dubai markets have been quite successful. After having opened an exclusive showroom in Dubai, the company now plans to expand its presence to Gulf Cooperation Council (GCC) countries, while fostering collaborations with global designers, experts in the field, and plans to launch products at the London Design Center.

The company’s tie-ups with large companies, home retailers and big brands like Kraus and Karren for their online supplies have enabled it to achieve healthy sustainable growth. The association it started with Grohe in 2019 for the supply of quartz sinks strengthened in FY22 with the approval to supply stainless steel kitchen sinks as well. Strategic partnership with IKEA (onboarded in 2021) to supply quartz sinks for their global requirement is progressing well. Currently, CARYSIL supplies only small quantities to them. However, business with these large customers should expand multifold in the coming years, once the company adds new products and supplies their global requirements. With all its efforts, CARYSIL is on path to become a one-stop shop for all kitchen and bathroom lifestyle products.

CARYSIL will continue to add large customers via the organic and inorganic routes (incl. tie-ups with existing distributors). The company also has the option to expand its product offerings (recently added surface panels via acquisition of STL in the UK) to these customers, which would not only increase the per customer revenue for CARYSIL, but also strengthen its relationship. Apart from this, the company is also looking to expand its branded business in the kitchen and bathroom products and appliances segments, providing robust long-term growth visibility.

Exhibit 36: Significant presence in the UK provides vast cross-selling opportunities



Source: Company

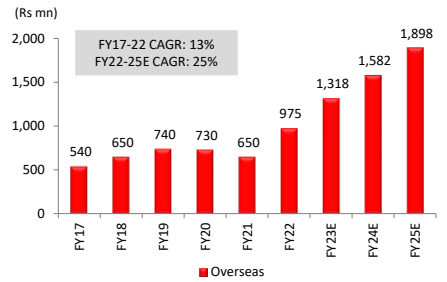
Network, product portfolio expansion to boost domestic sales

CARYSIL sells in-built kitchen appliances and bathroom products in the domestic market under *CARYSIL* and *Sternhagen* brands. Its domestic revenue surged by 35% YoY to Rs 1bn in 9MFY23, contributing 22% to total revenue (28% excluding STL, UK). With focus on in-house manufacturing, innovative products, project sales, branding, marketing, and channel expansion (2x in last one year; expects to touch 3,000 dealers and 100+ distributors by Mar'23), the company aims to achieve 30% CAGR in its domestic business over next 3-5 years.

CARYSIL's domestic business, mostly B2C, increased 35% YoY to Rs 1bn in 9MFY23, contributing 22% to total revenue (28% excluding STL UK). The company deals in a wide range of built-in kitchen appliances under the *CARYSIL* brand, with a variety of kitchen chimneys, dishwashers, cook tops, built-in ovens, wine-chillers, etc. It also offers bathroom solutions like premium sanitary ware, washbasins, composite 3D tiles to name a few, under the *Sternhagen* brand. Both brands roughly contribute 5% each to total revenue. From an outsourced model currently, the company plans to manufacture kitchen appliances in house, starting with hobs and hoods. It has hired IITians in its R&D team to focus on products with innovative features.

Through B2C, CARYSIL would now be also focussing on project sales and expects the vertical to contribute 50% of domestic revenue in 2-3 years (from ~20% currently), with healthy margins. It has identified relevant products that need to be launched for projects and have a separate sales team in place. Combined, all these factors along with continued focus on branding, marketing, and channel expansion (2x in last one year; expects to touch 3,000 dealers and 100+ distributors by Mar'23) should enable the company to achieve a robust 30% CAGR in its domestic business over the next 3-5 years.

Domestic revenue



Source: Company, Systematix Institutional Research

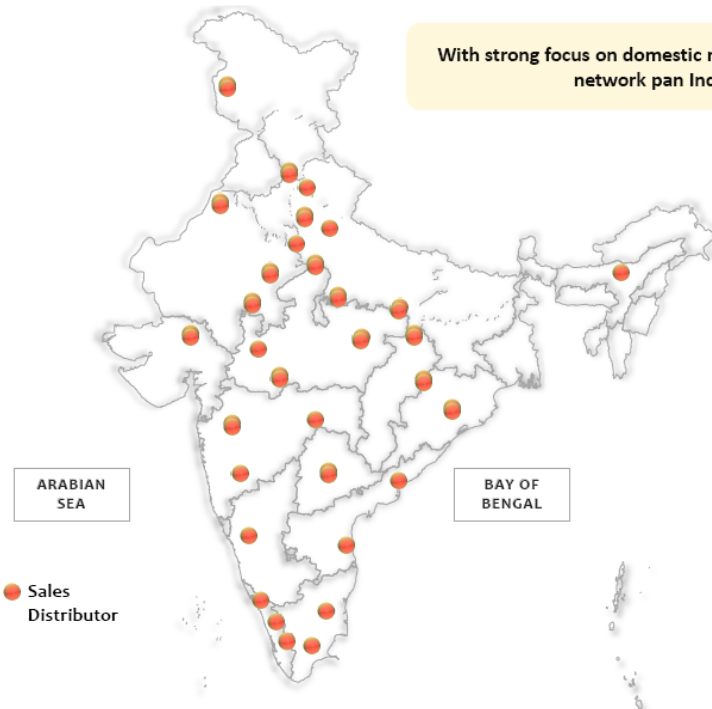
Distribution model



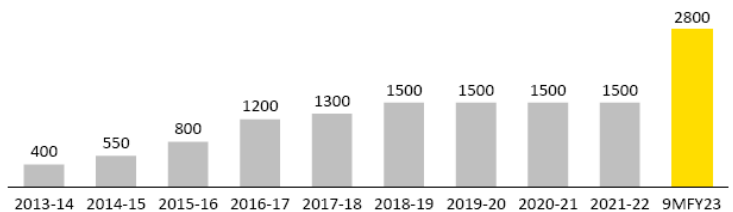
Source: Company

Exhibit 37: Strengthening domestic presence by expanding dealer network pan India

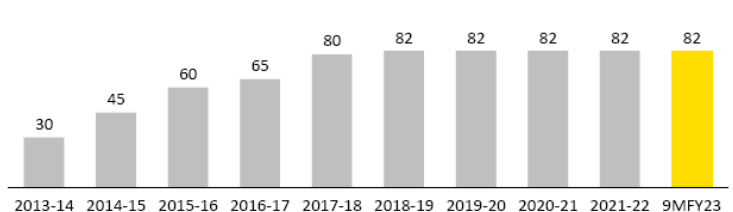
With strong focus on domestic market, we are increasing our penetration domestically by expansion in dealer network pan India. Further plans to increase dealers to ~3,000 by end of FY23



Dealer Network



Distributor Network



Source: Company

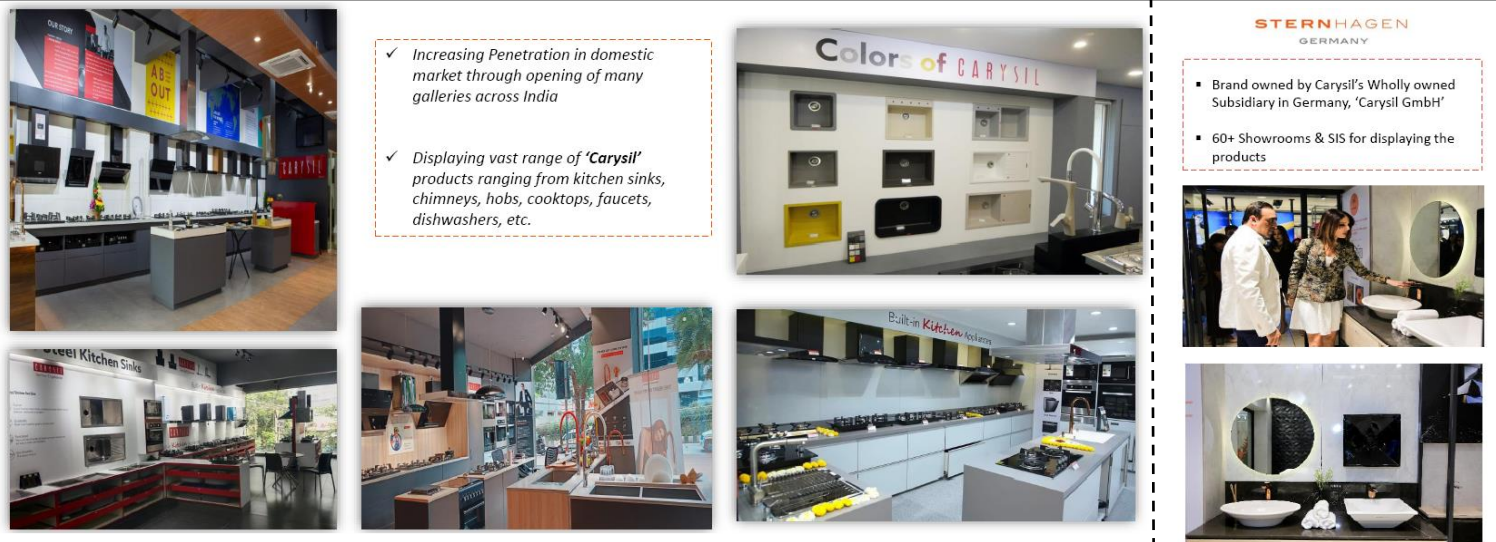
Focus on branding to become a leading global brand

Management aims to position CARYSIL as a leading global brand in the kitchen and bathroom product segments. The association of bollywood celebrity, Ms. Vani Kapoor, as its brand ambassador will likely help the company in strengthening its brand position and creating a brand recall for lifestyle products among the youth in the domestic market.

For the *Sterhagen* brand, CARYSIL has partnered with Ms. Sussanne Khan, a well-known interior designer, to launch its premium line of products. It has also partnered with Ms. Farah Ali Khan in a bid to showcase product distinction in terms of its enhanced beauty and style.

Without any significant marketing spends, CARYSIL has seen substantial improvement in organic sales on the 'CARYSILshop.com' website. Apart from this, the company's products (such as quartz kitchen sinks, faucets, cooking range, wine chillers, ice makers and cleaning kits) are also present on Amazon and Pepperfry.

Exhibit 38: Increasing presence across India



Source: Company

Exhibit 39: Marketing campaign for 'CARYSIL' brand



Source: Company

Large capex to meet the high demand and drive growth

Large capacity additions in quartz sinks over last 3-4 years have helped CARYSIL to add large global retailers as its customers and grow at a rapid pace. Before coming on board, large retailers see existing spare capacities to get comfort on sustained supply. Looking at the robust prospects, CARYSIL recently acquired 60 acres of land parcel close to its plants in Bhavnagar, to be used for existing and new product lines. By setting up capacities in advance, prior to approaching a new customer, near-term return ratios get restricted (on low utilisation) but it provides medium-to-long-term comfort on growth.

CARYSIL increased its capacity in quartz sinks from 400,000 units in FY19 to 1,000,000 units currently at an investment of over Rs 1bn. This helped the company onboard large global retailers such as IKEA, Grohe and Menard as its customers. Given the prevailing global operating environment, it has put its 200,000 units capacity expansion on hold.

The company has improved its stainless steel sinks capacity from 75,000 units in FY19 to 180,000 units (added 90,000 units recently) at a capex of ~Rs 110mn. The company has also installed a Physical Vapor Deposition (PVD) capacity that coats 50,000 designer steel sinks per annum. PVD technology elevates the aesthetics of a kitchen by providing coating for steel sinks in three colour tones like rose gold, yellow gold and gun metallic. It has received orders from France for PVD sinks and undermount sink models, which present great opportunities in the export markets.

Considering the rising demand for built-in kitchen appliances, CARYSIL is working towards manufacturing/assembling 200,000 built-in kitchen appliances to reduce dependence on imports, and become self-reliant in built-in this segment. It expects to carry out the expansion in 2 phases i.e., 100,000 units in 1QFY24 and the balance 100,000 units in 3QFY24.

For bathroom fittings, a faucet assembling line for 10,000 units will likely be operational 1QFY24 onwards. The company has already received enquiries and visibility to supply faucets from export customers including IKEA and Grohe.

Exhibit 40: Capex update

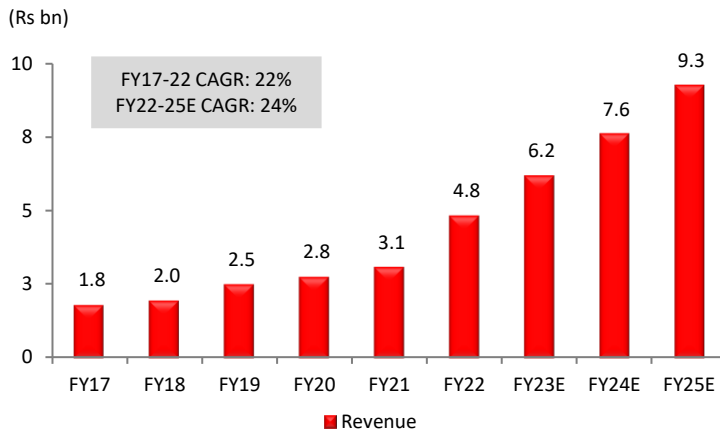
(nos.)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	CAGR	CAGR
										FY22-25E	FY17-22
Quartz sinks capacity	4,00,000	4,00,000	4,00,000	5,00,000	6,00,000	8,40,000	10,00,000	12,00,000	14,00,000	19	16
YoY (%)	23	-	-	25	20	40	19	20	17		
Steel sinks capacity	75,000	75,000	75,000	90,000	90,000	1,10,000	1,80,000	1,80,000	2,70,000	35	8
YoY (%)	-	-	-	20	-	22	64	-	50		
Capex (Rs mn)	132	195	183	199	359	731	1,500	1,000	1,000		

Source: Company

Financial outlook

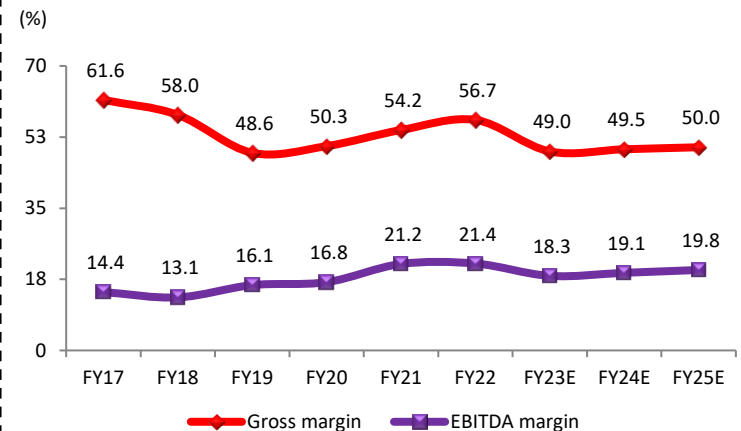
Post 22% CAGR in revenue over FY17-22, we estimate a 24% CAGR over FY22-25 driven by existing businesses and acquisition of STL, UK. Large capacity additions in existing categories (quartz sinks, stainless-steel sinks, appliances), new categories (bathroom fittings, countertops) and new customer additions (IKEA, Grohe, Menard, etc., over last 3 years) point to huge growth potential. EBITDA margin improved from ~14% in FY17 to 21%+ in FY21/FY22 on sharp reduction in other expenses. After having slipped to ~18% in FY23E due to a tough business environment and consolidation of lower margin STL business, we now expect EBITDA margin to rebound to ~20% level by FY25, as the environment normalises. Large capex plans may keep debt at high levels (FY23E/FY25E: ~Rs 2.5bn/ Rs 3bn). Thus, despite robust growth and healthy margins, higher interest costs and working capital needs could limit OCF/EBITDA at ~60% level over the next 2-years; RoE/RoCE, at ~20%, would be healthy though.

Exhibit 41: Revenue (consolidated)



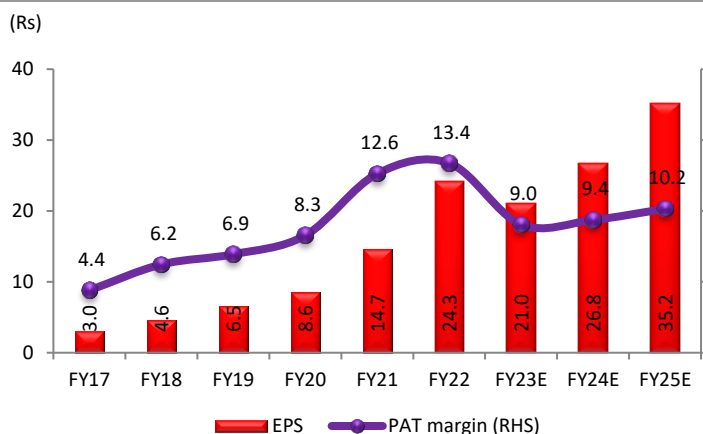
Source: Company, Systematix Institutional Research

Exhibit 42: Gross, EBITDA margins (%)



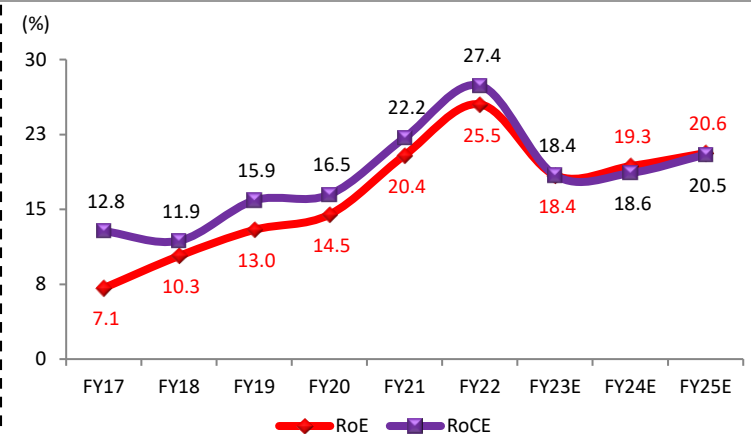
Source: Company, Systematix Institutional Research

Exhibit 43: EPS, PAT margin (%)



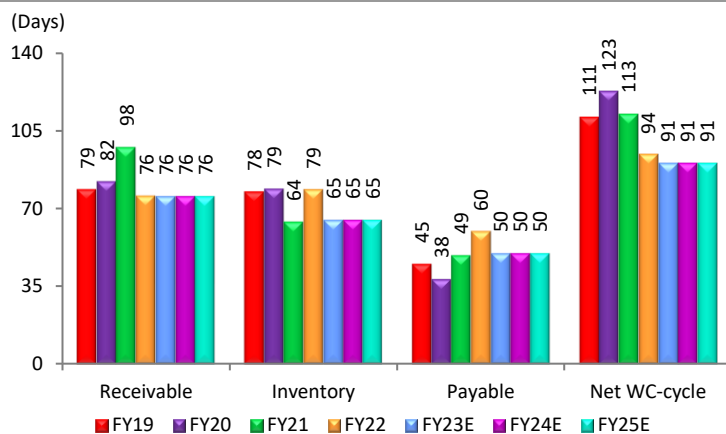
Source: Company, Systematix Institutional Research

Exhibit 44: Healthy return ratios, despite regular capex



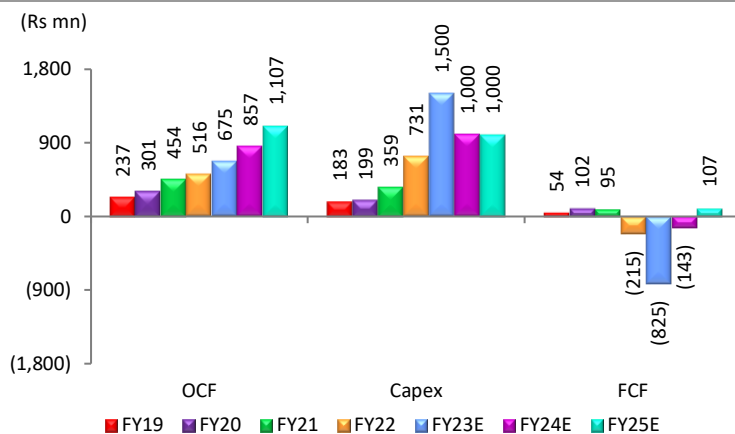
Source: Company, Systematix Institutional Research

Exhibit 45: Working Capital Cycle



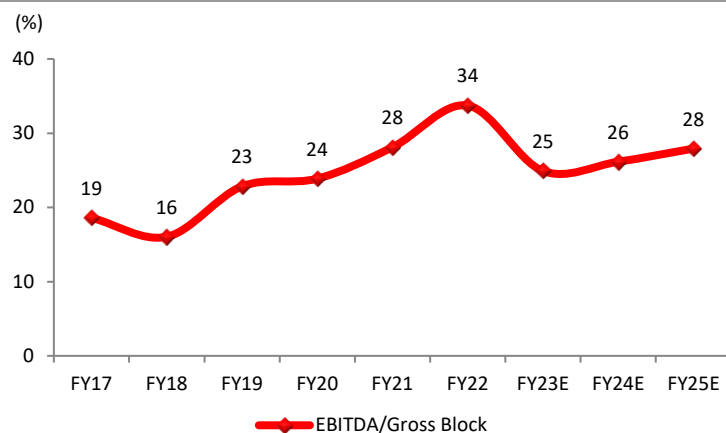
Source: Company, Systematix Institutional Research

Exhibit 46: OCF, Capex and FCF trend



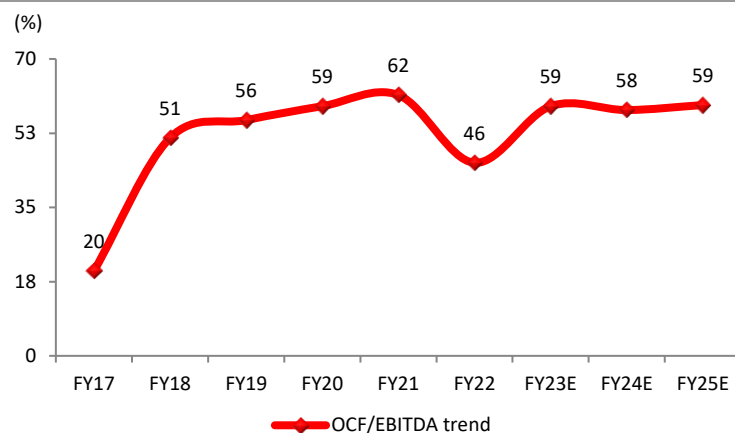
Source: Company, Systematix Institutional Research

Exhibit 47: EBITDA/Gross block



Source: Company, Systematix Institutional Research

Exhibit 48: OCF/EBITDA trend



Source: Company, Systematix Institutional Research

Exhibit 49: DuPont analysis

DuPont analysis	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
RoE (%)	13.0	14.5	20.4	25.5	18.4	19.3	20.6
PAT margin (%)	6.9	8.3	12.7	13.5	9.1	9.4	10.2
Total Asset Turnover (x)	1.1	1.1	1.0	1.2	1.1	1.2	1.2
Equity Multiplier (x)	1.7	1.6	1.6	1.6	1.8	1.8	1.7

Source: Company, Systematix Institutional Research

Outlook and View – Initiate with a BUY

We initiate coverage on CARYSIL with a BUY rating and a target price of Rs 705 (40% upside potential), based on 20x FY25E EPS of Rs 35. The scrip has corrected by over 40% since Apr'22 on fear of global demand slowdown, visible from its results since 2QFY23. However, we believe the issue of above-normal channel inventory is behind us, and we thus expect a strong rebound in performance 4QFY23 onwards. Robust order book and volume visibility from large global customers underpin our thesis.

CARYSIL is the only company in Asia and among four companies worldwide to manufacture quartz kitchen sinks with Schock technology (Germany). The company also manufactures stainless steel kitchen sinks (with core focus on Quadro sinks), kitchen appliances and bathroom fittings. Factors that drive CARYSIL's strong growth potential are a) product supply approvals from world's leading retailers such as IKEA, Grohe, Menard, etc., are testimonies to its product quality, systems and processes, b) significant capacity addition in view of strong demand visibility from its key customers, and c) customised and dedicated moulds for key customers, which provide comfort in terms of quality and supply assurance to them.

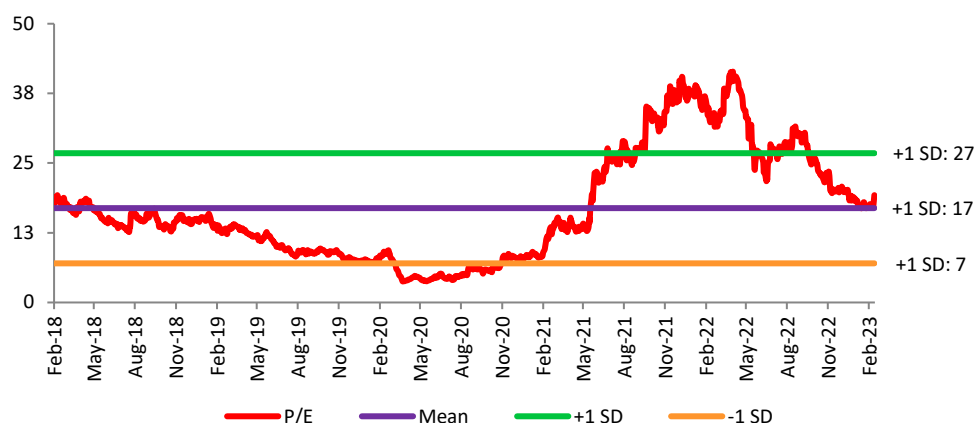
CARYSIL posted strong revenue/EBITDA/PAT at 22%/32%/52% CAGR over FY17-22 on EBITDA margin expansion (from ~14% to ~21%) and higher other income (forex gains). Over FY22-25E, we estimate 24%/21%/13% CAGR on EBITDA margin reaching ~20%, higher interest cost (due to rise in debt) and lower other income. Regular capacity additions ahead of demand and working capital needs will likely limit OCF/EBITDA at ~60% levels over next two years; RoE/ RoCE, at ~20%, would be healthy though.

Exhibit 50: Systematix vs. Bloomberg estimates

(Rs mn)	Systematix estimates			Bloomberg estimates			Systematix Vs. Bloomberg (% var)		
	FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25
Total Income	6,200	7,627	9,266	6,206	8,171	9,870	(0)	(7)	(6)
EBITDA	1,137	1,455	1,832	1,085	1,463	1,836	5	(1)	(0)
EBITDA margin (%)	18.3	19.1	19.8	17.5	17.9	18.6			
PAT	561	715	941	559	866	1,141	0	(17)	(18)
EPS (Rs)	21.0	26.8	35.2	20.9	32.4	42.7	0	(17)	(18)

Source: Bloomberg, Systematix Institutional Research

Exhibit 51: CARYSIL – one year forward PE band and standard deviation (SD)



Source: BSE, Systematix Institutional Research

Exhibit 52: Peer valuation comparison

	CMP	P/E (x)			1-yr fwd PE (5-yr)			EPS (Rs)			CAGR FY17-22 (%)			CAGR FY22-25E (%)			RoE (%)		RoIC (%)	
	21-Feb	FY23E	FY24E	FY25E	Mean	+1 SD	-1 SD	FY23E	FY24E	FY25E	Rev	EBITDA	PAT	Rev	EBITDA	PAT	FY22	FY25E	FY22	FY25E
Carysil	500	24	19	14	17	27	7	21	27	35	22	32	52	24	21	13	26	21	19	14
Cera	6,648	43	38	33	32	36	28	156	176	204	7	5	8	17	19	21	15	17	15	20
Kajaria Ceramics	1,060	50	33	29	35	45	26	21	32	37	8	4	8	15	15	16	18	21	21	24
Somany Ceramics	556	33	19	13	37	61	13	17	29	41	4	(2)	(2)	15	17	26	12	17	10	14
TTK Prestige	745	35	29	26	40	49	31	21	26	28	9	15	15	10	11	9	19	17	21	23
Stovekraft	448	29	19	14	40	53	26	15	24	31	17	31	118	16	3	22	17	19	18	19
Century Ply	514	31	28	24	28	38	18	16	19	21	11	11	10	15	12	14	20	18	23	20
Greenlam	313	32	34	20	29	35	23	10	9	16	10	6	13	22	27	27	14	19	12	10
Stylam	1,106	20	16	13	15	20	10	57	71	88	18	18	25	28	31	35	19	23	18	27

Source: Company, Bloomberg, Systematix Institutional Research

Key risks

- Economic slowdown in domestic and global markets could hamper the demand for the company's products, which are discretionary in nature.
- A rising interest rate scenario could increase the interest cost burden on loans taken for capex and working capital requirements.
- As ~80% revenue comes from exports, any large currency fluctuations could significantly impact earnings.

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net revenues (Rs mn)	3,097	4,839	6,200	7,627	9,266
Growth (%)	12	56	28	23	22
Direct costs	1,418	2,095	3,165	3,851	4,633
Gross Margin (%)	54	57	49	50	50
SG&A	1,022	1,711	1,899	2,320	2,801
EBITDA	658	1,033	1,137	1,455	1,832
EBITDA margins (%)	21.2	21.4	18.3	19.1	19.8
- Depreciation	127	177	263	344	406
Other income	80	101	9	23	37
Interest Exp	73	96	149	175	204
PBT	538	861	734	958	1,259
Effective tax rate (%)	27.0	24.2	23.0	25.0	25.0
+ Associates/(Minorities)	1	2	3	3	3
Net Income	391	648	561	715	941
Adjusted income	391	648	561	715	941
WANS	27	27	27	27	27
FDEPS (Rs/share)	15	24	21	27	35
FDEPS growth (%)	71	66	(13)	28	32

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	53	53	53	53	53
Net worth	1,914	2,537	3,044	3,695	4,555
Total debt	1,013	1,373	2,473	2,773	3,073
Minority interest	26	32	32	32	32
DT Liability/ (Asset)	40	46	51	56	61
Capital Employed	2,992	3,988	5,600	6,556	7,721
Net tangible assets	1,261	1,806	3,043	3,699	4,292
Net Intangible assets	258	257	257	257	257
Goodwill	-	-	-	-	-
CWIP	100	207	207	207	207
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	-	-	-	-	-
Current Assets	2,091	3,149	3,534	4,124	4,796
Cash	201	113	188	122	275
Current Liabilities	919	1,545	1,629	1,853	2,106
Working capital	1,172	1,604	1,905	2,270	2,689
Capital Deployed	2,992	3,988	5,600	6,556	7,721
Contingent Liabilities	-	3	-	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
EBIT (incl. other income)	260	334	874	1,111	1,426
Non-cash items	127	177	263	344	406
OCF before WC changes	387	511	1,137	1,455	1,832
Incr./ (decr.) in WC	159	185	280	346	399
Others including taxes	(226)	(191)	181	252	327
Operating cash-flow	454	516	675	857	1,106
Capex	359	731	1,500	1,000	1,000
Free cash-flow	95	(215)	(825)	(143)	106
Acquisitions					
Dividend	53	64	53	64	80
Equity raised	-	-	-	-	-
Debt raised	50	360	1,100	300	300
Fin Investments	-	-	-	-	-
Misc. Items (CFI + CFF)	74	105	147	159	173
Net cash-flow	18	(25)	75	(66)	153

Source: Company, Systematix Institutional Research

Ratios @ Rs 500

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
P/E (x)	34.1	20.6	23.8	18.7	14.2
EV/EBITDA (x)	21.5	14.1	13.8	11.0	8.8
EV/sales (x)	4.6	3.0	2.5	2.1	1.7
P/B (x)	7.0	5.3	4.4	3.6	2.9
RoE (%)	20.4	25.5	18.4	19.3	20.6
RoCE (%)	22.2	27.4	18.4	18.6	20.5
ROIC	15.3	19.4	12.1	12.1	13.6
DPS (Rs per share)	2.0	2.4	2.0	2.4	3.0
Dividend yield (%)	0.4	0.5	0.4	0.5	0.6
Dividend payout (%)	13.6	9.9	9.5	9.0	8.5
Net debt/equity (x)	0.4	0.5	0.7	0.7	0.6
Receivables (days)	98	76	76	76	76
Inventory (days)	64	79	65	65	65
Payables (days)	49	60	50	50	50
CFO:PAT%	116	80	120	120	118

Source: Company, Systematix Institutional Research

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