

CD Equisearch Pvt Ltd

Carysil Ltd.

No. of shares (m)	26.82
Mkt cap (Rs/\$m)	1863/225.0
Current price (Rs/\$)	695/8.4
Price target (Rs/\$)	776/9.4
52 W H/L (Rs.)	743/431
Book Value (Rs/\$)	73/0.9
Beta	0.9
Daily NSE volume (avg. monthly)	62020
P/BV (FY24e/25e)	7.4/5.7
EV/EBITDA(FY24e/25e)	15.5/13.1
P/E (FY24e/25e)	29.3/22.4
EPS growth (FY23/24e/25e)	-18.8/21.0/31.1
OPM(FY23/24e/25e)	18.1/19.5/20.0
ROE (FY23/24e/25e)	24.9/28.5/28.8
ROCE (FY23/24e/25e)	15.9/17.9/20.7
D/E ratio (FY23/24e/25e)	1.2/0.7/0.4
BSE Code	524091
NSE Code	CARYSIL
Bloomberg	CARYSIL IN
Reuters	CARY.NS

Shareholding pattern

	%
Promoters	43.9
MFs / Banks / FIs	6.7
Foreign Portfolio Investors	0.3
Govt. Holding	-
Public & Others	49.1
Total	100.0

As on June 30, 2023

Recommendation

ACCUMULATE

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Quarterly Highlights

- Carysil Ltd revenues grew by pleasing 22.7% to Rs 593.89 crs in FY23 as against Rs 483.90 crs in the corresponding period of previous year. However, the quartz sink segment, which contributes 52% to the topline, reported a fall in revenue to Rs 305.85 crs in FY23 exhibiting a degrowth of 17.9% on account of slower than expected destocking by the international clients and also lower demand in UK, USA and Europe due to inflationary pressure and high energy prices in the region. Quartz sink volume fell by 20.8% to 5.15 lakhs unit in FY23.
- In April, Carysil acquired 70% stake in 'The Tap Factory Ltd' for 1.16 million pounds with an option to buy remaining 30% in two tranches, it will help the company foray into more value added products and will enable it to acquaint itself with technical know-how for manufacturing and assembling of faucets in India. This was the third acquisition done by the company in UK. The company incurred around Rs 60 crs capex in FY23 and has doubled its capacity of steel sinks to 180,000 units and increased quartz sink capacity to 10 lakh units in FY23.
- Despite growth in topline company operating profit grew by merely 2.6% to Rs 107.39 crs in FY23 as compared to Rs 104.65 crs in FY22. However, rise in freight cost, lower operating leverage pertaining to lower sales volume and consolidation of Tickford Orange resulted in decline of OPM by 354 bps to 18.1%. IKEA has doubled its orders with the company and Karran has renewed its contract for 5 years. Courting of new clients could further enhance the sales momentum in future.
- The stock currently trades at 29.3x FY24e EPS of Rs 23.69 and 22.4x FY25e EPS of Rs 31.05. As European companies face economic challenges and look to shift their manufacturing bases to India, Carysil has a chance to absorb this growth which in turn will help drive up volumes and improve its operating leverage. The company is also adding value added products to its portfolio such as faucets, solid surface sink which will help in improving OPM in coming future. Earnings are estimated to grow by 21.0% to Rs 63.54 crs in FY24e and by 31.1% to Rs 83.28 crs in FY25e. Weighing odds, we assign 'accumulate' rating on the stock with a target of Rs 776 (previous target: Rs 741) based on 25x FY25e EPS over a period of 9-12 months.

Consolidated (Rs crs)	FY21	FY22	FY23	FY24e	FY25e
Income from operations	309.72	483.90	593.89	665.29	777.91
Other Income	8.01	10.07	1.59	4.49	3.57
EBITDA (other income included)	74.89	114.72	108.98	134.22	159.16
Consolidated Net Profit (Adjusted)	39.11	64.35	52.42	63.54	83.28
EPS(Rs)	14.65	24.11	19.58	23.69	31.05
EPS growth (%)	74.8	64.5	-18.8	21.0	31.1

Outlook & Recommendation

Industry Overview

As per report by Mordor Intelligence, the global home improvement market is estimated at USD 773 billion in 2023. Tailwinds like increasing urbanization, increasing interest in enhancing the visual appeal of homes and accelerating millennial household formation are driving the market growth. It's worth noting that North America is a significant market for home improvement. In this region, the rising popularity of DIY (Do-it-yourself) home improvement and the adoption of new technologies are contributing to increase spending in the sector. However, fluctuations in the cost of raw material and limited availability of skilled labor are some challenges that may affect the demand for home improvement and could potentially hinder the growth of the sector.



Source: Mordor Intelligence

Source: Maximize Market research

Mordor Intelligence estimates the global home improvement market to cross USD 915 billion by 2028 growing at a CAGR of 3.4%. The growth will be primarily driven by increasing consumer aspiration and rapid urbanization coupled with shifting preferences of homeowners for energy-efficient and luxurious living spaces which are significantly contributing to the industry expansion. High internet penetration in developing countries and rapid adoption of online sales channels by the market players present lucrative growth opportunities for the market. As a result companies are investing in R&D to increase their product offerings such as advance home technology and security. Also, the availability of D-I-Y (Do it Yourself) products in the market would allow consumers to personalize the home improvement and remodeling based on their requirements which is expected to bolster the global home improvement market growth in the next five years.

Kitchen sink market is one of the primary beneficiaries from the rising growth in the home improvement market. As per report of Allied Market Research, the global kitchen sink market which was worth USD 3.3 billion in 2022 is estimated to reach USD 4.9 billion in 2031, growing at a CAGR of 4.3%. An increasing sentiment in consumer to make their home more appealing and comfortable has driven the market for innovative and premium sinks. Growing construction activities across the globe is one of the key factors expected to drive growth of this global market. Huge demand for sinks is being created by growing number of restaurants and other commercial spaces, and increasing nuclear families that is creating desire for adding an aesthetic look to the kitchen. An increasing desire of consumers to make their home more appealing and comfortable has driven the market for innovative and premium sinks.

As granite sinks are gaining popularity and perceived as the most suitable alternative to stainless steel, currently available. The developed economies like America, Germany, UK and France are seeing greater demand. Europe holds the largest market share in the global kitchen sink market, followed by North America. These geographies have higher sedentary lifestyles, thus promoting lavish expenditure on elegant looks of kitchens. In India, the rise in the number of nuclear families, rapid urbanization, more women in the workforce, the concept of open kitchens and increased penetration of online distribution channels in Tier 2+ cities have been driving the growth of the kitchen sinks. This segment now relies heavily on innovation as new trends continue to capture the market.

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Acquisition of 'The Tap Factory Ltd'

In April, Carysil announced its wholly own subsidiary, Carysil UK Ltd, acquired 70% stake in The Tap Factory Ltd for a consideration of 1.16 million pounds (for the total enterprise value of 1.65 million pound) with the option to buy the balance of 30% in 2 tranches of 15% each at an enterprise value based on 6 times EBITDA of next two years. The acquisition will be funded by internal accruals. TTFIdesigns and sources kitchen and bathroom products, especially modern hot water boiling taps. During the past few years, they began selling bathroom equipment to the distribution market and have transitioned into more kitchen products, including instant boiling water taps and has turnover of 1.5 million pounds during Nov'21- Oct'22.

The acquisition would mark Carysil third acquisition in UK, showing its broadening portfolio in the international region. It will help in opening new market for prospective buyers for unique range of fully certified instant hot waters taps and kitchen mixer tapes thus providing providing potential new sales channels and cross-selling opportunities. This acquisition will also enable the company to manage supply chain of faucets. Moreover, we have to wait as to how Carysil would benefit from the synergy and integration of faucets with its sink segment.



Source: Carysil Ltd

Financials and Valuation

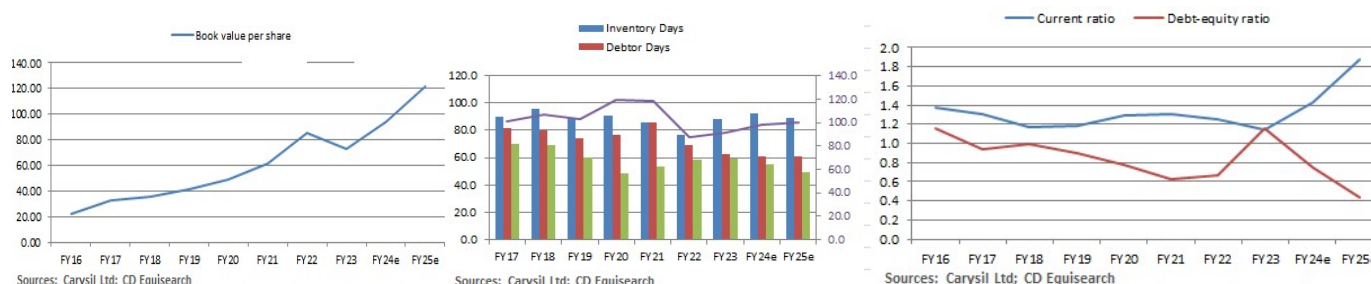
As competitors in European region face high inflationary pressure and volatile energy prices, Carysil is strengthening its ties with major global companies to capture a larger market share as export (contributes 78% to the topline) has been the mainstay of its the robust turnover growth. Lately we can see company has renewed its contract with Karran and IKEA has doubled its order book which will aid in higher revenue recognition. The company has also added 50 new customers in UK and 3 in USA while adding new products like faucets to its portfolio. It is also strengthening their position in domestic market with product expansion and expanding dealers network with total dealer tally at 3100+ at the end of FY23. This expansion along with spending in marketing will help in improving brand visibility and increasing its reach.



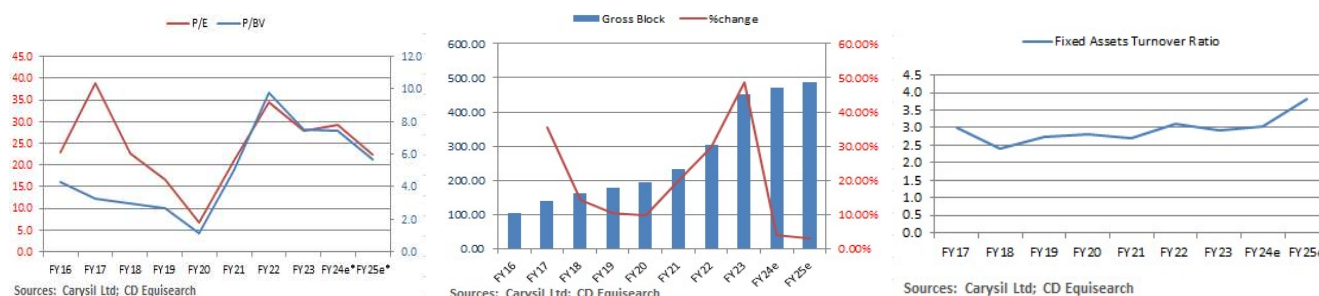
Carysil is consistently ramping-up its production capacity in the light of strong demand coming from both domestic and international market. The company has doubled its production capacity for stainless sinks to 1,80,000 (made an agreement with IKEA for stainless sink; production will commence in 4 months) units and increased its quartz sink capacity to 10,00,000 units. In FY23 company has spent Rs 60 crs in capex.

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In light of high freight cost, headwinds in international business due to high inflation, slower than expected de stocking of inventory by the clients and volatile energy prices, OPM fell to 18.1% in FY23 as against 21.6% in FY22. In order to improve margin, company is taking cost reduction measures under Kaizen program like integrating SAP ERP system to improve efficiency and controls, while waiting to reap benefits of softening raw material prices and moderation in freight cost. Further company is adding value added products to its portfolio through acquisition by entering new segment and developing products which garner higher margin. As per current trends we expect margin to increase to 19.5% in FY24e and 20.0% in FY25e from 18.1% in FY23.



The stock currently trades at 29.3x FY24e EPS of Rs 23.69 and 22.4x FY25e EPS of Rs 31.05. Carylil see good growth prospects over the next few years due to companies shifting their manufacturing bases from Europe as they face economic headwinds, increasing consumer preference for aesthetically superior products and narrowing price difference between with its steel and quartz sinks. Ordering cycle could gain velocity as demand for both domestic and international market picks up. Carylil is also adding high value product to their portfolio through acquisition such as 'The Tap Factory' and developing new products will improve revenue and margin in coming years. However, Carylil faces stiff competition from other global manufacturers which will prevent it from gaining market share. Weighing odds, we assign 'accumulate' rating on the stock with a target of Rs 776 (previous target: Rs 741) based on 25x FY25e EPS over a period of 9-12 months. For more information, refer to our July 2022 report.



*Forward Multiple

Financials

Consolidated Quarterly Results

Figures in Rs crs

	Q4FY23	Q4FY22	% chg.	FY23	FY22	% chg.
Income From Operations	145.57	138.93	4.8	593.89	483.90	22.7
Other Income	1.03	2.19	-52.9	1.59	10.07	-84.2
Total Income	146.60	141.12	3.9	595.48	493.97	20.5
Total Expenditure	119.34	110.73	7.8	486.50	379.25	28.3
EBITDA (other income included)	27.27	30.39	-10.3	108.98	114.72	-5.0
Interest	3.78	3.41	10.8	14.52	10.92	33.0
Depreciation	7.24	4.97	45.6	26.36	17.72	48.7
PBT	16.24	22.01	-26.2	68.10	86.08	-20.9
Tax	3.74	5.47	-31.6	15.27	20.82	-26.7
PAT	12.50	16.54	-24.4	52.83	65.26	-19.0
Minority Interest	0.07	0.18	-58.2	0.41	0.49	-16.8
PAT after Minority Interest	12.43	16.36	-24.0	52.42	64.76	-19.1
EO	-	-	-	-	0.41	-
Adjusted Net Profit	12.43	16.36	-24.0	52.42	64.35	-18.5
EPS(Rs)	4.64	6.13	-24.3	19.58	24.11	-18.8

Consolidated Income Statement

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
Income From Operations	309.72	483.90	593.89	665.29	777.91
Growth (%)	12.1	56.2	22.7	12.0	16.9
Other Income	8.01	10.07	1.59	4.49	3.57
Total Income	317.72	493.97	595.48	669.78	781.49
Total Expenditure	242.83	379.25	486.50	535.56	622.33
EBITDA (other income included)	74.89	114.72	108.98	134.22	159.16
Interest	8.40	10.92	14.52	17.84	14.60
Depreciation	12.66	17.72	26.36	30.73	32.33
PBT	53.83	86.08	68.10	85.65	112.23
Tax	14.51	20.82	15.27	21.41	28.06
PAT	39.32	65.26	52.83	64.24	84.18
Minority Interest	0.19	0.49	0.41	0.70	0.90
PAT after Minority Interest	39.12	64.76	52.42	63.54	83.28
EO	0.01	0.41	-	-	-
Adjusted Net Profit	39.11	64.35	52.42	63.54	83.28
EPS (Rs)	14.65	24.11	19.58	23.69	31.05

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Consolidated Balance Sheet

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
Sources of Funds					
Share Capital	5.34	5.34	5.35	5.36	5.36
Reserves	186.08	248.36	298.03	356.21	432.78
Total Shareholders' Funds	191.41	253.69	303.38	361.57	438.14
Minority Interest	2.56	3.24	3.65	4.35	5.25
Long Term Debt	21.71	38.58	78.30	84.26	89.26
Total Liabilities	215.68	295.52	385.34	450.18	532.65
Application of Funds					
Gross Block	234.68	304.76	452.89*	471.58	486.58
Less: Accumulated Depreciation	82.77	98.44	124.80	155.52	187.85
Net Block	151.90	206.32	328.09	316.06	298.73
Capital Work in Progress	10.01	20.75	13.70	10.00	10.00
Investments	0.00	0.00	0.00	0.00	0.00
Current Assets, Loans & Advances					
Inventory	54.55	104.23	130.57	139.71	163.36
Trade receivables	83.02	100.37	103.05	119.75	140.02
Cash and Bank	20.13	11.35	10.24	19.20	22.43
Short term loans (inc. OCA)	63.18	91.63	117.06	127.06	143.43
Total CA	220.88	307.58	360.93	405.73	469.25
Current Liabilities	165.22	240.99	309.38	277.40	241.74
Provisions-Short term	1.03	1.63	0.98	1.07	1.18
Total Current Liabilities	166.25	242.62	310.35	278.48	242.92
Net Current Assets	54.63	64.96	50.57	127.26	226.33
Net Deferred Tax Liability	-3.98	-4.62	-5.21	-5.89	-6.13
Net long term assets (net of liabilities)	3.11	8.12	-1.81	2.76	3.73
Total Assets	215.68	295.52	385.34	450.18	532.65

*Estimated

Key Financial Ratios

	FY21	FY22	FY23	FY24e	FY25e
Growth Ratios (%)					
Revenue	12.1	56.2	22.7	12.0	16.9
EBITDA	43.1	52.5	-4.6	23.2	18.6
Net Profit	77.2	64.5	-18.5	21.2	31.1
EPS	74.8	64.5	-18.8	21.0	31.1
Margins (%)					
Operating Profit Margin	21.6	21.6	18.1	19.5	20.0
Gross profit Margin	21.5	21.3	15.9	17.5	18.6
Net Profit Margin	12.7	13.4	8.9	9.7	10.8
Return (%)					
ROCE	18.0	22.5	15.9	17.9	20.7
ROE	26.5	32.9	24.9	28.5	28.8
Valuations					
Market Cap/ Sales	2.7	4.6	2.5	2.8	2.4
EV/EBITDA	12.1	20.7	15.4	15.5	13.1
P/E	21.1	34.5	27.9	29.3	22.4
P/BV	5.0	9.8	7.5	7.4	5.7
Other Ratios					
Interest Coverage	7.4	8.8	5.7	5.8	8.7
Debt Equity	0.6	0.7	1.2	0.7	0.4
Current Ratio	1.3	1.3	1.1	1.4	1.9
Turnover Ratios					
Fixed Asset Turnover	2.7	3.1	2.9	3.0	3.8
Total Asset Turnover	1.8	2.1	2.2	2.2	2.0
Inventory Turnover	4.2	4.8	4.1	4.0	4.1
Debtors Turnover	4.3	5.3	5.8	6.0	6.0
Creditor Turnover	6.9	6.3	6.2	6.7	7.4
WC Ratios					
Inventory Days	85.9	76.4	88.1	92.1	88.9
Debtor Days	85.6	69.2	62.5	61.1	60.9
Creditor Days	53.2	58.3	59.2	54.8	49.5
Cash Conversion Cycle	118.3	87.3	91.4	98.4	100.3

Cumulative Financial Data

Figures in Rs. crs	FY17-19	FY20-22	FY23-25e
Income from operations	629	1070	2037
Operating profit	96	219	393
EBIT	84	199	313
PBT	54	170	266
PAT	36	126	199
Dividends	10	15	20
OPM (%)	15.3	20.5	19.3
NPM (%)	6.0	11.9	9.9
Interest coverage	2.8	6.8	6.7
ROE (%)	14.6	25.0	24.0
ROCE (%)	11.7	16.9	18.4
Debt-Equity*	0.6	0.7	0.4
Fixed asset turnover	3.0	2.6	3.6
Debtors turnover	4.3	4.6	5.6
Inventory turnover	4.0	3.6	4.1
Creditors turnover	5.5	5.1	6.6
Debtor days	84.3	79.2	64.6
Inventory days	90.9	101.6	89.1
Creditor days	65.9	71.2	55.2
Cash conversion	109.3	109.6	98.5
Dividend payout ratio (%)	27.4	11.9	9.8

FY17-19 implies three year period ending fiscal 19; *as on terminal year

Robust growth in the spending on home improvement products and increasing consumer preference for aesthetic products explains much of the 90.4% rise in cumulative revenue from operations during FY23-25e when compared to that in the preceding three year period. Moreover, the company would benefit from increased operating leverage owing to pick up in volumes, favorable terms of supply contracts and launch of high value products. As a result, cumulative operating profit is estimated to grow by a pleasing 79.4%; though OPM would moderate to 19.3% in FY23-25e period.

Increase in operating profit coupled with higher fixed asset utilization efficiency (fixed asset turnover in FY23-25e period is pegged at 3.6 vs 2.6 in the previous three period) would hugely help improve return on capital to 18.4% in FY23-25e. Improvement in inventory days and debtors day will be nullified by decrease in creditors days, thus bringing down the cash conversion cycle in the projected years (see table).

Financial Summary- US Dollar denominated

million \$	FY21	FY22	FY23	FY24e	FY25e
Equity capital	0.7	0.7	0.7	0.6	0.6
Shareholders' funds	22.4	29.9	23.7	30.4	39.5
Total debt	13.9	20.1	27.3	22.7	17.3
Net fixed assets (incl. CWIP)	18.8	26.8	29.0	26.9	24.8
Investments	0.0	0.0	0.0	0.0	0.0
Net current assets	7.0	8.1	5.5	14.6	26.4
Total assets	25.7	35.4	33.6	41.1	50.9
Revenues	41.7	64.9	73.9	80.4	94.0
EBITDA	10.1	15.3	13.6	16.2	19.2
EBDT	9.0	13.9	11.7	14.1	17.5
PBT	7.3	11.5	8.5	10.3	13.6
PAT	5.3	8.6	6.5	7.7	10.1
EPS(\$)	0.20	0.32	0.24	0.29	0.38
Book value (\$)	0.84	1.12	0.88	1.13	1.47

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs82.80/\$).
All dollar denominated figures are adjusted for extraordinary items.

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buy: >20% accumulate: >10% to ≤20% hold: ≥-10% to ≤10% reduce: ≥-20% to <-10% sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY20	FY21	FY22	FY23
Average	70.88	74.20	74.51	80.39
Year end	75.39	73.50	75.81	82.22

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.