

## Carysil Ltd — Aug 2023 Quarterly Analysis

### 1. VERDICT & BUSINESS QUALITY SNAPSHOT

**Result:** Weak Miss / Operational Hiccup **One-line:** Management has blamed a botched SAP implementation and a regional cyclone for a ₹15 Cr revenue slippage, masking a recovery in export demand and improved gross margin retention.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Weak Miss	Consol. Revenue (₹142.8 Cr) is below Q1 FY23 (₹171.3 Cr) and implied run-rate for ₹750 Cr target.	☐
Earnings Quality	High (Core driven)	Gross margins improved as RM/Freight savings were retained rather than fully passed to customers.	☐
Guidance Confidence	Neutral	Re-affirmed ₹1,000 Cr FY25 vision but needs massive Q2-Q4 ramp-up (₹200 Cr+/qtr) to hit FY24 internal targets.	☐
Management Credibility	Neutral	Lost revenue due to "teething troubles" in SAP implementation suggests poor transition planning.	☐
Business Quality Signal	Stable	Destocking cycle in exports (US/UK) is ending; customer inventories are now <90 days.	☐
Key Q&A Exchange	Q# 1, 3 (SAP/ Spillover)	Mgmt clarifies ₹15 Cr is "spillover," not lost sales; Street remains skeptical of "technical" misses.	☐
The Street's Primary Anxiety	Demand Sustainability	Analysts questioned the gap between 60% dealer growth and flat domestic revenue; Mgmt cited lead times.	☐
Capital Cycle Stage	Investment	Significant land acquisition (43k sq mt) and faucet assembly line commencement.	☐
Margin / Return Ratio Trajectory	Improving	EBITDA margins held at ~19% despite lower utilization; targeting 20%+ as volumes ramp.	☐
Pricing Power	Expanding	Retaining supply chain benefits; not passing 100% of input cost reduction to OEMs.	☐
FCF Conversion & Quality	Strong	FY23 OCF/PAT was 1.34x; Q1 shows continued discipline despite inventory buffer.	☐
Competitive Moat Signals	Stable	Schock technology remains the barrier; focus shifting to "one-stop-shop" (Sink + Tap + Appliance).	☐
Balance Sheet Strength	Adequate	Gross debt at ₹220 Cr; includes acquisition debt for UK subsidiaries.	☐
Working Capital Efficiency	Deteriorating	Inventory remains a buffer against supply chain issues; SAP implementation hindered DSO transparency.	☐
Mgmt Guidance Track Record	Mixed	Consistent on long-term vision, but execution on ERP and Appliance timeline has slipped.	☐
Key Vulnerability / Red Flag	ERP Execution Risk	The admission of lost production/sales due to software migration signals operational fragility.	☐
Management Tone	Pragmatic	Candid about internal hiccups but bullish on "Europe Plus One" tailwinds.	☐

**Key Takeaways (Positives & Negatives):** \* **Positives:** The **export destocking cycle is largely over**, with inventory levels now below 90 days and orders reviving. **Gross margins are expanding** as management successfully retains the majority of freight and raw material cost deflation. The "One-Stop-Shop" strategy is working—domestic customers coming for Quartz sinks are increasingly cross-buying appliances, scaling that segment to a ₹50 Cr+ run-rate. \* **Negatives:** **Execution lag** is the primary concern; the SAP implementation caused a ₹15 Cr revenue spillover, and the appliance manufacturing plant is delayed to H2 FY24. Domestic revenue (₹30-35 Cr range) has remained flat YoY despite a **60% surge in dealer network**, suggesting a disconnect between distribution reach and secondary sales conversion. \* **Street Concern:** Analysts are focused on the "missing" domestic growth. Management's response: Dealer additions happened late in the quarter; the realization will reflect in Q2-Q3. \* **Forward Watchpoint:** Monitoring the **capacity utilization jump** from 60% to 80% in Quartz sinks by year-end is the litmus test for the "recovery" narrative.

## 2. BUSINESS PERFORMANCE

### 2A. KEY METRICS

Metric	Current Qtr (Q1FY24)	YoY Change (vs Q1FY23)	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	142.8	↓ 16.6%	↓ 10.1%	↓	Miss driven by ₹15 Cr SAP-related spillover and Cyclone Biparjoy impact.
Gross Margin (%)	51.5%	↑ 390 bps	↑	↑	Retention of RM/Freight cost benefits; limited pass-through to customers.
EBITDA (₹Cr)	27.4	↓ 20.3%	↑ 3.4%	↓	Absolute EBITDA down YoY due to lower volumes; utilization hit by ERP issues.
EBITDA Margin %	19.2%	↓ 90 bps	↑	□	Targeted 20%+ but held back by lower capacity utilization (60%).
PAT (₹Cr)	11.6	↓ 38.3%	↓	↓	Impacted by lower EBIT and higher interest costs on acquisition debt.
ROCE (%)	18.7%*	↓ 530 bps	-	↓	*FY23 figure. Impacted by high land bank and pending utilization of new capacity.
Cash Flow (OCF) (₹Cr)	71.2*	↑ 38.0%	-	↑	*FY23 annual figure. Q1 specific OCF not disclosed; FY23 OCF/PAT = 1.34x.
Net Debt / Equity (x)	0.72x	↑	↑	↓	Gross Debt ₹220 Cr. Increase due to UK acquisition and land purchase.
Interest Coverage (x)	7.5x	↓	↓	↓	Calculated from Q1 PBIT/Finance Cost. Lower due to higher interest rates.
Volume: Quartz Sinks	104,000	↓ 38.8%	↓	↓	Missed ~30,000 units (₹15 Cr) due to SAP; targeting 80% utilization by year-end.
Volume: SS Sinks	20,000	↓ 30.1%	↓	↓	Shift towards high-end PVD (Designer) sinks; capacity now 180k p.a.
Utilization (%)	60%	↓	↓	↓	Targeted recovery to 70% in Q2 and 80% by Q4.
Int'l Revenue (GBP Mn)	10.1	→	→	→	UK subsidiaries (Carysil Products & Surfaces) holding stable despite macro.

### 2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Avg	Key Development
Quartz Sinks	79.0	↓	High	↓	Above	55% of Rev. Recovery expected as destocking ends.
Steel Sinks	16.7	↓	Mid	↓	Below	Added 90k capacity (Total 180k); PVD demand rising.
Appliances/ Faucets	12.8	↑	Mid	↑	Below	Faucet assembly started; Domestic B2C focus.
UK Subsidiaries	34.3	→	16-18%	→	Below	Consistent revenue (~£4-5m/qtr for Surfaces/ Tap Factory).

### 3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	₹720-750 Cr for FY24.	Needs ₹195 Cr/qtr for next 3 qtrs. Q1 was only ₹142.8 Cr. High Risk.	Mixed	High
Guidance	Revenue	₹1,000 Cr by FY25.	Needs 30% CAGR over next 2 years. Feasible with M&A + 80% Utilization.	Met (Vision)	Moderate
Guidance	Margins	20%+ EBITDA Consolidated.	Requires utilization to hit 75%+ to absorb fixed costs.	Met	Low
Guidance	Volume	80% Utilization (Quartz) by Q4.	Needs output to jump from 104k to ~200k units/qtr.	Delayed	Moderate
Strategy	Domestic	100 Galleries by FY24 end.	Currently 85 galleries. Needs 15 more in 3 quarters.	On Track	Low
Strategy	M&A	Mix of Organic & Inorganic.	Looking for synergy in brand/tech/network.	Reliable	Low
Strategy	Faucets	Full production by H2 FY24.	Assembly line started Q1. Phase 1 production pending.	Delayed	Moderate

## 4. ANALYST Q&A

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Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Cred.	Verdict
1	4.5	Ashwini Damani, Ratnabali	ERP Implementation	Management Commentary	Why did the SAP implementation lead to a loss of production/sales?	Management explained they chose a hard cut-over from April 1st to avoid parallel system confusion, which slowed transaction speeds and caused a ₹15 Cr spillover. This operational glitch temporarily deflated Q1 revenue but de-risks future reporting accuracy once stabilized.	None	3.0	Admitted failure
2	3.5	Ashwini Damani, Ratnabali	Technology Moat	Business Overview	Are there non-Schock technologies being used by major retailers like IKEA?	Management stated they are unsure of competitors' tech but noted that non-Schock sinks have high failure rates (cracking/fading) in the field. This reinforces the "Schock" brand as a critical quality moat for premium global contracts.	Tech specifics of peers	3.0	Vague on peers
3	4.0	Udit Gajiwala, Yes Sec	Spillover	Financials	Will the ₹15 Cr lost in Q1 be recouped in Q2?	Management confirmed the ₹15 Cr (approx. 30k units) is a spillover that will be visible in Q2 dispatches	None	4.0	Specific target

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						alongside regular orders. This suggests Q2 should see a "bump" in growth, making it a crucial quarter for verification.			
4	4.5	Udit Gajiwala, Yes Sec	Revenue Targets	Outlook	How will you bridge the gap to the ₹1,000 Cr FY25 target?	Management expects organic growth from new customer breakthroughs plus a mix of M&A to bridge the ~₹250 Cr gap from the current run rate. This indicates that a significant acquisition is likely on the horizon to meet the stated vision.	Specific M&A targets	3.0	Visionary
5	3.0	Vaidik, Monarch	Market Shift	Industry Trends	Is there an industry shift from Quartz back to Stainless Steel?	Management denied any shift, stating that destocking caused the temporary Quartz dip while Quartz remains the "future" globally. This maintains the core thesis of Quartz penetration into the 90M unit global sink market.	None	4.0	Denied shift
6	4.0	Chirag Fialoke, Ratnatraya	Inventory	Financials	What is the current channel inventory level	Management estimated inventory has dropped below	None	4.0	Bullish signal

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					at the customer end?	90 days (now ~60 days), and some models are out of stock. This signifies the end of the destocking headwind, clearing the path for fresh order inflows.			
7	4.5	Chirag Fialoke, Ratnatraya	Domestic Sales	Business Overview	Why is domestic revenue flat despite a 60% increase in the dealer network?	Management argued that dealer realization happens with a lag (momentum expected in Q3/Q4) and Q1 was hit by dispatch issues. This is a key credibility watchpoint for the second half of the year.	Specific unit sales per dealer	2.5	Hedged
8	3.0	Tushar Raghatate, Kamaykya	Volume Growth	Outlook	When will Quartz volumes surpass the peak 1.70L unit run rate?	Management expressed hope to hit that run rate by Q2 or Q3, driven by new customer breakthroughs. This sets a clear volume benchmark for investors to track in the next 180 days.	None	3.0	Hopeful/Vague
9	3.0	Tushar Raghatate, Kamaykya	Awareness	Business Overview	Are consumers aware of Quartz sinks in metros like Mumbai?	Management admitted Metro awareness takes time but highlighted their "Gallery" strategy and	None	4.0	Strategy-led

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						project breakthroughs with Mumbai builders. This confirms a shift from generic distribution to high-touch experiential selling.			
10	3.5	Tushar Raghatate, Kamaykya	Brassware Tech	Capex and Allocation	What is the significance of the "5-flow hot water tap" technology?	Management noted the acquisition gives them tech for boiling, sparkling, and filtered water in one tap, which is the global "future." This positions Caryl to capture higher wallet share in premium modular kitchens.	None	5.0	Tech-specific
11	4.0	Urvin Desai, True Focus	Brand Mix	Strategy	What is the split between OEM and Branded revenue?	Management aims to move branded share to 30% over 5 years (currently low) through initiatives in Gulf, Turkey, and Australia. This pivot to branding is the primary lever for long-term margin expansion.	Current exact split %	2.5	Directional only
12	3.5	Garvit Goyal, Nvest	M&A Strategy	Management Commentary	Why are you looking at M&A now versus the previous organic focus?	Management clarified that the vision has always been a mix, using M&A to scale	None	4.0	Consistent

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						up brand and technology edges. This confirms the UK acquisitions were not one-offs but part of a repeatable global consolidation playbook.			
13	4.0	Devika Jain, Ratnabali	Growth Basis	Outlook	How do you justify 30-40% domestic growth?	Management cited the "One-Stop-Shop" convenience and the "lifestyle" shift in Indian kitchens as the primary drivers. If successful, India could become the most profitable geography due to branded B2C realizations.	None	4.0	Logic-driven
14	3.0	Kunal Ochiramani, Kitara	Store Economics	Capex and Allocation	What are the economics of a franchisee gallery?	Management noted a ₹15-20 Lakh capex per store with a sub-3-year ROI and monthly revenue targets of ₹8-10 Lakh. This indicates an asset-light expansion model for the company with high dealer "skin in the game."	Company's share of capex	3.0	Vague on split
15	4.0	Viraj Parekh, JMP	Capacity Ceiling	Business Overview	Can current plants do ₹1,000 Cr	Management stated Indian plants (Quartz	None	5.0	Quantified

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					revenue without more capex?	+ Steel) have a peak revenue capacity of ₹700 Cr. This confirms that the ₹1,000 Cr target <i>requires</i> both the UK business and further inorganic/organic expansion.			
16	4.5	Chirag Shah, White Pine	B2C Execution	Management Commentary	Are you spreading too thin by opening galleries in too many countries?	Management clarified they are not opening their own stores but using distributors to set up franchisees/ experience centers. This mitigates operational risk while maintaining brand control in new geographies.	None	4.0	De-risked model
17	4.5	Koustav, D DAS	Strategy	Strategy	How does the Quartz sink help sell appliances?	Management called Quartz sinks their "trump card"; customers coming for the unique sink are then up-sold the appliance suite. This synergy is the core of the "Lifecycle Statement" thesis for the Indian market.	None	5.0	Central thesis

**PATTERN FLAGS & SENTIMENT \* Theme: The SAP "Spillover":** Analysts were uniformly critical of the revenue miss due to ERP implementation. Management's tone was apologetic but firm that these were "teething

troubles" now resolved. The consensus remains: Q2 must show the ₹15 Cr recovery to validate management's credibility. \* **Theme: Domestic realization gap:** A recurring concern was the 60% dealer growth not translating into immediate domestic revenue growth. Management's posture was confident, pointing to the lag in momentum and project cycles. This is an unresolved "show-me" story for the next two quarters. \* **Analyst Sentiment Verdict:** Skeptical but hopeful. Analysts are satisfied with the **gross margin improvement** and the end of **export destocking**, but are weary of operational excuses (SAP/Cyclone). Management's credibility took a minor hit on execution, but the strategic logic of the "One-Stop Kitchen" remains highly persuasive.

## 5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1FY23)	This Quarter (Q1FY24)	Direction
<b>Consolidated Revenue</b>	₹171.3 Cr	₹142.8 Cr	↓
<b>Gross Margin %</b>	47.6%	51.5%	↑
<b>Quartz Sink Volume</b>	170,035 units	104,000 units	↓
<b>Capacity Utilization</b>	Peak (near 80-90%)	60%	↓
<b>Inventory Status</b>	Channel Stocking (High)	Destocking Over (<90 days)	↑
<b>Domestic Distribution</b>	1,880 Dealers	3,200+ Dealers	↑
<b>Brassware Segment</b>	Acquisition Phase (STL/Tap Factory)	Assembly line commenced	↑
<b>ERP Status</b>	Legacy Systems	SAP ERP implemented (Live)	↑
<b>Appliance Strategy</b>	Trading focus	Manufacturing setup in progress (H2 FY24)	□
<b>Geographic Focus</b>	Europe/US/Domestic	Added GCC (Dubai) & Turkey WOS	↑

**INVESTOR NOTES:** \* **Thesis Integrity:** The core thesis remains intact. The revenue decline is primarily a mix of a difficult YoY base (destocking peak) and one-off operational issues. \* **Margin Resilience:** The ability to expand gross margins during a volume dip is a sign of strong pricing power and successful retention of supply chain deflation. \* **Working Capital:** Watch for the OCF/PAT ratio in the H1 FY24 results; if SAP issues persist, working capital could bloat. \* **The "Trump Card":** The synergy between Quartz sinks (moat) and Appliances (growth) is becoming the dominant value driver for the domestic market. Expansion into Turkey and GCC under the "Carysil" brand marks the next phase of global retail expansion.