

Carysil Ltd — Feb 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Weak Beat **One-line:** Carysil is emerging from a "perfect storm" of European destocking and high energy costs, with a sharp domestic pivot and a deepening IKEA relationship providing the floor for a FY24 recovery.

| Dimension | This Quarter | Signal / Evidence | Sentiment |
|------------------------------|---------------------------|---|-----------|
| Beat/Miss vs Prior Quarter | Weak Beat | Revenue (₹138.8 Cr) is flat QoQ (₹138.1 Cr), but EBITDA margins improved ~260 bps from the Q2 trough. | □ |
| Earnings Quality | High (Core driven) | Growth is becoming diversified; Appliances grew 45% and Stainless Steel 11%, offsetting Quartz volume declines. | □ |
| Guidance Confidence | Neutral | Management maintains the ₹1,000 Cr target for FY24 but postponed the 200k Quartz sink expansion due to global volatility. | □ |
| Management Credibility | Strong | Proactive capacity reallocation (shifting Quartz capex to Faucets/ Appliances) shows agility in capital allocation. | □ |
| Business Quality Signal | Improving | Transitioning from a "component exporter" to a "lifestyle kitchen brand"; Domestic revenue is now a structural hedge. | □ |
| Key Q&A Exchange | Q# 11 — IKEA Wallet Share | Global IKEA supply chain team visited Bhavnagar; positive feedback suggests a looming share gain from German peers. | □ |
| The Street's Primary Anxiety | Quartz Volatility | 15% 9M unit decline in Quartz sinks. Mgmt response: Destocking is "almost over" with inventory at 2 months. | □ |
| Capital Cycle Stage | Investment / Expansion | Acquired 60,000 sq. m land for future projects; doubling SS sink capacity by March '23. | □ |
| Margin Trajectory | Recovering | EBITDA margins improved from ~15.6% (Q2) to 18.2% (Q3) as freight costs cooled. | □ |
| Pricing Power | Stable | Realizations are higher in Steel sinks due to PVD technology mix and higher-spec Quartz SKUs. | □ |
| FCF Conversion & Quality | Distorted | FY22 CFO/PAT was 0.79; Q3/9M cash flow detail is absent, but inventory destocking should unlock cash. | □ |
| Competitive Moat Signals | Widening | Only manufacturer in Asia with Schock technology; now leveraging cost advantage vs. high-energy German competitors. | □ |
| Balance Sheet Strength | Adequate | Land acquisition was funded via internal accruals (₹B Cr); Net Debt stable after the STL acquisition spike. | □ |
| Working Capital Efficiency | Improving | Management confirms destocking in India is complete; export channel inventory normalizing to 45 days. | □ |
| Mgmt Guidance Track Record | Reliable | Historically accurate on capacity delivery (1M units achieved); hit "Lifestyle" pivot targets. | □ |
| Key Vulnerability | Geo-Political Macro | ~60% of Revenue still depends on the Export Quartz segment, vulnerable to EU energy and inflation. | □ |
| Management Tone | Confident / Pragmatic | Bullish on Domestic (30-50% growth) but cautious on timing of the "hard landing" in the US. | □ |

Key Takeaways (Positives & Negatives): * **Positives:** The **domestic pivot** is now a reality, with 9M volume growth in Appliances (+45%) and Stainless Steel (+11%) providing a robust counter-cyclical hedge to the 15% Quartz export decline. The **IKEA partnership** is maturing; a visit from the global supply chain team signals a high probability of increasing wallet share as high energy/labor costs cripple German competitors. **Strategic agility** is evident in the decision to postpone the 200k Quartz expansion in favor of high-growth categories like Faucets (100k capacity) and Appliances. * **Negatives:** **Quartz Sink volumes** remain under pressure, down 15% YoY for the 9M period, reflecting the prolonged hangover of global inventory destocking. **Interest coverage** has compressed significantly to ~4.5x for the 9M period (calculated from PPT) compared to the double-digit levels seen pre-acquisition. * **The Street's Concern:** Analysts remain focused on the sustainability of margins and the timing of an export rebound. **Management Response:** They have signaled that "Green Sinks" and PVD technology will drive premium realizations, while the "Super X" sinks will reduce freight and packaging costs. * **Forward Watchpoint:** The commercial production of the expanded Stainless Steel capacity (180k units) in March '23 is the primary catalyst for Q1 FY24 revenue growth.

2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures primary. Concall used for volume and 9M EBITDA/PAT MI.

| Metric | Current Qtr (Q3 FY23) | YoY Change | QoQ Change | Trend | Mgmt Commentary |
|----------------------|-----------------------|------------|------------|-------|---|
| Revenue (□Cr) | 138.8 | ↑ 8.4% | ↑ 0.5% | → | Flat QoQ due to ongoing export destocking; growth driven by Domestic and STL. |
| Gross Margin (%) | Not in Doc | - | - | - | Management indicated margins are "intact" due to RM/freight cooling. |
| EBITDA (□Cr) | 25.2 | ↓ 18.7% | ↑ 16.7% | ↑ | Absolute EBITDA recovering from Q2 trough; YoY dip due to high base/mix. |
| EBITDA Margin % | 18.2% | ↓ 600 bps | ↑ 260 bps | ↑ | 9M EBITDA margin at 18.3% vs 23.5% FY22. |
| PAT MI (□Cr) | 12.0 | ↓ 29.4% | ↓ 18.9% | ↓ | Impacted by higher finance costs and mix shift. |
| ROCE (%) | 24.0%* | - | - | → | *FY22 base; 9M figures suggest compression due to STL/Land capex. |
| Cash Flow (OCF) | 51.6* | - | - | - | *FY22 annual figure; Q3 details absent. |
| Net Debt / (Cash) | ~150.0 | ↑ | → | → | PPT: Gross Borrowings □137.3 Cr (Mar-22). Stable post-STL. |
| Interest Coverage | 4.5x | ↓ | ↓ | ↓ | 9M EBIT □34.8 Cr / Finance Cost □7.6 Cr. (PPT p.4). |
| Volume: Quartz Sinks | 134,700# | ↓ 18% | ↓ | ↓ | #9M volumes down 15% to 401,466 units. |
| Volume: SS Sinks | 27,200# | ↑ 11% | ↑ | ↑ | #9M volumes up 11% to 81,185 units. |
| Volume: Appliances | 7,300# | ↑ 45% | ↑ | ↑ | #9M volumes up 45% to 21,957 units. |
| Domestic Rev (□ Cr) | ~30.0 | → | → | → | 9M Domestic rev at □27.2 Cr (Quartz only); total domestic higher. |
| UK Revenue (Mn GBP) | ~3.3 | ↑ | → | ↑ | Carysil Products + Carysil Surfaces (STL) performing well. |

2B. SEGMENT BREAKDOWN

| Segment | Revenue (9M Cr) | YoY Growth | Margin | Trend | vs Avg | Key Development |
|------------------|-----------------|-------------|--------|-------|--------|---|
| Quartz Sink | ~270.0 | ↓ 15% (Vol) | High | ↓ | Above | 60% of Domestic Rev; Export destocking bottoming. |
| Steel Sink | ~60.0 | ↑ 11% (Vol) | Mid | ↑ | Below | Capacity doubling to 180k by March '23; PVD focus. |
| Appliances | ~25.0 | ↑ 45% (Vol) | Mid | ↑ | Below | Setting up in-house assembly; margins expected at consol level. |
| Carysil Surfaces | ~100.0 | New | 16-17% | → | Below | STL acquisition; 35% UK market share; "Made to order." |

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

| Dimension | Category | Management Target / Claim | Required Run-Rate / Mathematical Feasibility | Historical Delivery | Risk Flag |
|-----------|--------------------|--|--|---------------------|----------------------|
| Guidance | Revenue | ₹1,000 Cr target for FY24. | Needs ~₹140 Cr/qtr avg for next 5 qtrs. Currently doing ₹139 Cr. High feasibility. | Met | Macro slowdown. |
| Guidance | Margins | Maintain "Intact" consol margins (18-20%). | Needs volume recovery in Quartz to offset lower-margin STL worktops. | Met | RM/Energy prices. |
| Guidance | Volume | Double domestic project sales in 3 years. | Needs project sales to reach 40-50% of domestic (currently 20%). | On Track | Real estate cycle. |
| Guidance | Capacity | SS Sink capacity: 180,000 units. | Commencing March '23. Capex of ₹1 Cr completed. | Delivered | Execution risk. |
| Strategy | Capex Plan | Postpone 200k Quartz expansion. | Capital reallocated to Appliances/Faucets (higher local growth). | New | Demand signals. |
| Strategy | Capital Allocation | Land Acquisition: 60,000 sq. m. | ₹8 Cr spend for "future projects" (Ceramics/Faucets/Surfaces). | New | Asset heavy turn. |
| Macro | Industry Headwinds | Destocking period ending. | Mgmt expects "Normalcy" by end of Q4 FY23. | Pending | Recession depth. |
| Macro | Input Cost | Freight/Energy tailwind. | Logistics costs returning to pre-pandemic levels in UK/EU. | Improving | Energy crisis flare. |

4. ANALYST Q&A

| Q# | Relevance | Analyst | Theme | Category | Underlying Concern | Management Response & Investment Implication | Evaded | Credibility | Verdict |
|----|-----------|-----------------------|------------|----------|---|---|--------|-------------|----------------------|
| 1 | 4.0 | Jensen Jacob (Centra) | Capacity | Capex | "In the last call, you mentioned 1.5M capacity... now you say existing capacity fully utilized. Can you throw light?" | Management clarified that the 200k sink expansion was postponed to reallocate focus toward faucets and hobs due to global recession. This pivot signals a strategic shift to capture higher-growth domestic appliance demand over stagnant exports. | None | 5.0 | Clear pivot |
| 1a | 3.5 | Jensen Jacob (Centra) | Land Use | Capex | "Do you plan on utilizing the newly acquired land for quartz sinks or other segments?" | Management is exploring categories like faucets, hobs, ceramics, and kitchen surfaces for the 60,000 sq. m land. This suggests a multi-product "one-stop shop" strategy for India is the next major leg of capex. | None | 3.0 | Options open |
| 2 | 4.0 | Udit Gajiwala (YES) | Order Book | Outlook | "What is the Q4 volume trajectory looking like from the current order book?" | Management noted a positive outlook post-exhibitions, with order bookings in the US and UK ramping up. If orders materialize as claimed, Q4 should see the first QoQ volume growth | None | 4.0 | Directional recovery |

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|----|-----------|------------------------|------------|------------|--|---|--------|-------------|-----------------------|
| | | | | | | in Quartz since Q1 FY23. | | | |
| 3 | 3.5 | Udit Gajiwala (YES) | Pricing | Financials | "The realization for this quarter looks much higher... have we taken price increases?" | Realization grew due to a better SKU mix, higher steel sink prices, and higher-value Quadro/PVD sink exports. Premiumization of the mix is successfully protecting the revenue base despite volume pressure. | None | 5.0 | Mix-driven ASP |
| 4 | 3.5 | Aman Agrawal (Equirus) | STL | Financials | "What kind of growth and margin improvement do we see in Sylmar (Carysil Surfaces)?" | Surfaces are beating forecasts because they are "made-to-order" and avoided the destocking crisis affecting sinks. The lack of inventory lag makes this segment a stabilizer for consolidated earnings during export downturns. | None | 4.0 | Structural stabilizer |
| 5 | 4.0 | Aman Agrawal (Equirus) | Appliances | Strategy | "With the existing market competitive, how do you explain our right to win in Appliances?" | Management is hiring IIT engineers and a dedicated sales team to differentiate via "in-house assembly" and local innovation. Success here turns Carysil from a sink-maker into a direct | None | 3.5 | Strategic intent |

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|----|-----------|-------------------------------|-----------|------------|---|---|--------|-------------|------------------|
| | | | | | | competitor to Faber/Elica in India. | | | |
| 6 | 3.0 | Nikhil Gada (Abakkus) | Domestic | Financials | "Domestic growth has been flat... are we seeing a slowdown?" | Management blamed Q3 flatness on the Diwali inventory build-up in Q2 being cleared (destocking) in Q3. Q4 is expected to show the "real" underlying demand growth of the domestic channel expansion. | None | 4.0 | Seasonal destock |
| 7 | 4.5 | Nikhil Gada (Abakkus) | B2B | Strategy | "What kind of target are you planning from the mega-builder channel?" | Project sales are currently 20% of domestic revenue, and management expects to double this by tapping architects and designers. Increasing project exposure improves volume visibility but may pressure blended margins by 15-20% per unit. | None | 4.5 | Specific target |
| 8 | 3.5 | Shrinjana Mittal (RatnaTraya) | Inventory | Financials | "What is the channel inventory right now?" | Domestic inventory has normalized to 2 months with distributors; UK distribution inventory is at 45 days. Reaching | None | 5.0 | Normalcy reached |

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|----|-----------|-------------------------|--------------|----------|---|--|--------|-------------|--------------------|
| | | | | | | "normal" levels implies that primary sales (factory to dealer) will now match secondary consumption (dealer to consumer). | | | |
| 9 | 5.0 | Harsh Jhanwar (Centrum) | Partnerships | Strategy | "Any update on any new partnerships with global retail giants?" | Management confirmed advanced discussions with key global players, citing the 35% price gap vs. German manufacturers as the primary lever. Closing just one of these deals could justify the next leg of Quartz capacity expansion. | None | 4.0 | Potential catalyst |
| 10 | 5.0 | Harsh Jhanwar (Centrum) | IKEA | Strategy | "Did we see higher offtake or higher wallet share with IKEA?" | A global IKEA supply chain team visited recently to vet Carysil as a long-term strategic partner vs. high-cost European peers. This validation from IKEA is the strongest signal yet of a structural market share shift from West to East. | None | 5.0 | Major share signal |
| 11 | 3.0 | Harsh Jhanwar (Centrum) | Ceramics | Strategy | "What is the rationale to look at | Carysil will target the "premium- | None | 3.5 | Niche focus |

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|----|-----------|------------------------|-------------------|----------|---|---|--------|-------------|-------------------|
| | | | | | ceramics where it's competitive?" | luxury" segment (Sternhagen brand) where realization is 5x higher than mass-market ceramics. This niche focus avoids the "Morbi commodity trap" and maintains the brand's premium positioning. | | | |
| 12 | 3.0 | Varun Arora (Safe Ent) | Mix | Business | "Why is there a higher decline in Quartz sinks vs. Steel?" | Quartz is 75% export-dependent (hard hit by destocking), while Steel is only 10% export-dependent. This vulnerability highlights why the company is aggressively pivoting to the more resilient Indian domestic market. | None | 4.0 | Vulnerability ID |
| 13 | 4.0 | Nitin (KIFS) | Revenue Potential | Capex | "What is the maximum revenue potential from existing capacities?" | Total revenue potential is ~₹950 Cr (₹600 Cr Quartz, ₹90 Cr Steel, ₹90 Cr Appliances, ₹140 Cr UK). Reaching the ₹1,000 Cr target requires full utilization and the next leg of capex on the new land. | None | 5.0 | Quantified upside |
| 14 | 3.5 | | | Macro | | | None | 4.0 | |

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|----|-----------|------------------------------|------------------|----------|---|---|--------|-------------|------------------|
| | | Garvit Goyal (Invest Res) | Energy Crisis | | "If demand only is not there due to energy crisis, then how are we going to benefit?" | Management argued that even if EU demand is flat, Carysil can win share in America/Global markets where high-cost German competitors also sell. The "Benefit" is market share gain (volume) rather than just market growth. | | | Share gain logic |
| 15 | 3.5 | Rushabh Doshi (Nimiti) | Distribution | Strategy | "Are we able to service 3,000 dealers through 82 distributors?" | Active distributors will grow from 50 to 100+, with each servicing a hub of dealers. Expanding the "middle-man" layer is essential to avoid logistics bottlenecks as they hit the 3,000-dealer mark. | None | 4.0 | Logic confirmed |

PATTERN FLAGS & SENTIMENT * The "German Advantage" Theme: A recurring theme was the structural opportunity created by the European energy crisis. Analysts were skeptical about whether EU demand existed at all, but management successfully pivoted the narrative to *market share gains* in non-EU markets (USA, GCC) where German competitors are now 35% more expensive. This posture shifted from defensive to opportunistic. * **Domestic Reassurance:** Analysts pressed on the "flat" domestic Q3. Management's explanation of a Diwali-related destocking was accepted, but the pressure is now on Q4 FY23 to deliver the promised 30-50% growth rate to maintain credibility on the "domestic hedge" thesis. * **Analyst Sentiment Verdict:** The tone was **cautiously optimistic**. While analysts were wary of the 15% Quartz volume decline, they were impressed by the IKEA supply chain visit and the successful integration of STL (Carysil Surfaces). Management's credibility remains high due to their transparency regarding the capex postponement and the clear roadmap for the new land.

5. WHAT CHANGED vs PRIOR QUARTER

| What Changed | Prior Quarter (Q2 FY23) | This Quarter (Q3 FY23) | Direction |
|----------------------------|---|---|-----------|
| Expansion Strategy | Focused on adding 200k Quartz capacity. | Postponed Quartz expansion; reallocated to Hobs/ Faucets. | ↔ |
| EBITDA Margin | ~15.6% (Trough) | 18.2% (Recovering) | ↑ |
| Asset Base | Existing facilities. | Acquired 60,000 sq. m land (£B Cr). | ↑ |
| IKEA Status | Standard Supplier. | Vetted by Global Supply Chain team for "Partner" status. | ↑ |
| Product Portfolio | Sinks/Appliances focus. | Entry into high-end Ceramics (Sternhagen niche). | ↑ |
| Global Presence | US/UK/EU focus. | Incorporating UAE Subsidiary for GCC/Saudi market. | ↑ |
| Quartz Volume Trend | High Growth base. | 15% 9M volume decline (Destocking). | ↓ |
| Interest Coverage | ~9.3x | ~4.5x (9M Basis) | ↓ |

INVESTOR NOTES: * **Thesis Integrity:** The thesis has shifted from a "Global Quartz Play" to a "Kitchen Solutions Platform." The export weakness is temporary (destocking), while the domestic strength (Appliances/ Project Sales) is structural. * **The IKEA Catalyst:** The IKEA global team visit is a tier-1 signaling event; if share gains follow, Carysil enters a higher-predictability revenue bracket. * **Capital Allocation:** Reallocating capex away from Sinks toward Faucets/Appliances is a smart defensive move that preserves ROI in a high-interest environment. * **The "Ceramic" Watchpoint:** Entry into ceramics is high-risk/high-reward; investors must watch for any signs of "Commodity Drift" away from the promised premium Sternhagen niche.