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 (□8 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.

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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 □11 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

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						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

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						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

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						"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

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					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	

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
		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.

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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 (□8 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.