Carysil Ltd — Feb 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline on Revenue, Miss on Margins **One-line:** The long-term thesis is bolstered by massive order breakthroughs with Karran (Home Depot/Lowes chain) and IKEA, though current margins are at a cyclical trough due to a "perfect storm" of logistics, FX translation, and raw material volatility.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline Revenue / Miss Margin	Revenue □203.1 Cr (vs □188.0 Cr YoY); EBITDA Margin 15.2% (vs 19.1% YoY) missed the 18% "floor" guidance.	□
Earnings Quality	Low (Accounting Drags)	PAT impacted by □2.8 Cr notional FX loss on UK consolidation and □3 Cr additional strategic marketing spend.	□
Guidance Confidence	Strong	Management maintains the $100M (□840 Cr+) revenue target for FY25 and expects a return to 18%+ EBITDA margins in Q4.	□
Management Credibility	High	Successfully secured a "once in a lifetime" large-scale retail deal via Karran and expanded the IKEA relationship.	□
Business Quality Signal	Improving	Diversification into high-margin "workstation" sinks and faucets is gaining traction; domestic flat-lining is seen as temporary.	□
Key Q&A Exchange	Q#10: US Deal	The Karran order for a major US retailer is a structural shift that could move US revenue contribution to 25% of the mix.	□
The Street's Primary Anxiety	Margin Trough	Concern over 15.2% EBITDA; Mgmt clarified this includes one-off FX translation and temporary freight spikes that have already reversed.	□
Capital Cycle Stage	Investment / Ramp-up	Investing in new molds for the Karran deal and a new appliance factory; QIP funds being deployed strategically.	□
Margin / Return Ratio Trajectory	Troughing	15.2% is the likely bottom; freight rates have "crashed" and raw material (MMA) is softening for Q4.	□
Pricing Power	Stable	Pass-through of freight is occurring; new PVD faucets retailing at □20k-25k show premium brand elasticity.	□
FCF Conversion & Quality	Improving	Debt reduced by □45 Cr since March; inventory rationalization (discontinuing slow SKUs) is a focus for Q4.	□
Competitive Moat Signals	Widening	Breakthrough into Kohler India (SS Sinks) and global IKEA approval for new SKUs validates product quality.	□
Balance Sheet Strength	Strong	Net Debt at □255 Cr (vs □300 Cr in March); QIP proceeds provide a buffer for upcoming capacity expansion.	□
Working Capital Efficiency	Improving	Management is rationalizing SKUs and focusing on high-value products to reduce inventory bloat noted in H1.	□
Mgmt Guidance Track Record	Reliable	Consistently delivering on volume growth (Quartz +15%, SS +27% in 9M) despite macro headwinds.	□
Key Vulnerability / Red Flag	US Subs. Loss	United Granite (US) still lacks scale; mgmt is shutting underperforming showrooms to reach breakeven.	□
Management Tone	Confident	Bullish on "US is back" and the structural benefit of FX/Freight reversals.	□

Sentiment: □Positive

Key Takeaways: * **Positives:** Carysil has hit a commercial inflection point with three massive wins: (1) A large-scale US home retail order via Karran, (2) Global SKU approval from IKEA, and (3) An entry into Kohler India's supply chain. These provide high visibility for Q4 and FY26 volume growth. Debt reduction of □45 Cr in 9M demonstrates disciplined capital management despite expansion. * **Negatives:** Consol margins were severely compressed (down 390 bps YoY) by a combination of high freight (9.3% of sales), rising MMA prices ($2.52/kg), and a □2.8 Cr notional FX loss. Domestic demand remains muted, particularly in North India due to seasonal construction halts. * **The Street's Concern:** Analysts pressed on the sustainability of the 18-20% margin guidance. Management's defense is robust: the factors that hurt Q3 (Freight, FX, MMA) are all currently reversing. Freight has returned to pre-March levels, and MMA is expected to drop 20% by March. * **Watchpoint:** Execution of the Karran order in Q4. If this translates into a sharp jump in Quartz utilization (from 65% toward the 80% target), the margin recovery will be non-linear due to operating leverage.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *Note: PPT provided Consol P&L; 9M Volume data used for run-rates.*

Metric	Current Qtr (Q3FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□Cr)	203.1	↑ 8.0%	↓ 1.9%	→	Flat QoQ due to holiday seasonality in UK/US and muted domestic retail.
Gross Margin (%)	52.0%	↓ 0.6%	↓ 3.6%	↓	Impacted by MMA price hike to $2.52/kg and GBP translation loss.
EBITDA (□Cr)	31.2	↓ 13.6%	↓ 15.9%	↓	Hit by □3 Cr extra marketing spend and □2.1 Cr incremental freight.
EBITDA Margin %	15.2%	↓ 390 bps	↓ 270 bps	↓	"Perfect storm" of FX, Freight, and RM; 18% remains the long-term floor.
PAT (□Cr)	12.5	↓ 18.3%	↓ 26.8%	↓	Performance dragged by subsidiary translation and US operating losses.
EPS (□)	4.67 (9M)	Not stated	Not stated	→	9M FY25 Consol PAT at □45.5 Cr.
CFO/EBITDA (%)	Not in Doc	N/A	N/A	→	Mgmt focused on "streamlining working capital" via SKU reduction.
Net Debt/Equity (x)	0.38 (est)	↓	↓	↑	Borrowings reduced to □255 Cr from □300 Cr in March 2024.
Interest Coverage (x)	4.12	↓	↓	↓	Standalone EBIT □14.4 Cr / Finance Cost □3.1 Cr.
Quartz Sink (Units)	157,149*	↑ 11%	↑ 3%	↑	*9M total 472,193. Growth driven by international demand recovery.
SS Sink (Units)	30,179*	↓	↓	↓	*9M total 109,346. Softness due to "spill of some major orders."
Appliances/ Faucets (U)	12,882*	↓	↓	↓	*9M total 41,759. Muted by North India construction halt (pollution).
Domestic Rev (□ Cr)	118.3 (India)	→	→	→	Includes standalone + steel; muted but "value-driven" shifts occurring.
Int'l Rev (Mn GBP)	7.1 (UK)	↑ 9.2%	↓	↑	9M FY25 at 25.4 Mn GBP. Gaining share from German competitors.
MMA Price (USD/ kg)	2.52	↑ 40.7%	↑ 8.2%	↓	Peaked in Dec; expected to drop to $2.02 in March 2025.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Avg	Key Development
Standalone (India)	105.7	↑ 3.0%	16.9%	↓	Above	9M revenue up 16.9%; hit by domestic demand softness in Q3.
Quartz Sinks	92.95 (India)	↑	Positive	↑	Above	15% 9M volume growth; breakthrough Karran deal is the catalyst.
SS Sinks	12.76 (India)	↓	Stable	↓	Below	Utilization at 80% (9M); Kohler India order is a major new anchor.
UK Subs. (Carysil UK)	~76.0	↑ 9%	Positive	↑	Above	Gaining market share from high-cost German manufacturers.
US Subs. (United Gr)	~8.0	↓	Breakeven	↑	Below	Cutting costs; shutting 1 loss-making showroom; aiming for Q1 profit.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	$100M (₹840 Cr) for FY25.	Needs ₹229 Cr in Q4 (vs ₹203 Cr Q3). Highly feasible given Karran ramp-up.	Reliable	Low
Guidance	Margins	Return to 18% Guidance.	Needs ~300 bps expansion in Q4. Feasible if freight/MMA reverse as claimed.	Mixed	Medium
Guidance	Volume	80% Quartz Utilization.	Implies ~200k sinks in Q1FY26. Dependent on US retail deal timing.	Reliable	Medium
Strategy	Domestic	₹500 Cr India sales in 5-7 yrs.	Requires ~25% CAGR. Hiring Big 4 consultant for blueprint.	New Target	High
Strategy	US Pivot	PBT Breakeven for United Gr.	Needs operating breakeven in Q4. Showroom closure helps.	Tracking	Medium
Macro	Logistics	Freight at 6.5% (Pre-March).	Current at 9.3%. 280 bps margin kicker if this holds.	External	Medium
Balance	Debt	Further Net Debt Reduction.	Focus on inventory rationalization.	Strong	Low

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
1	4.5	Harsh Shah / D&B	Margins	Financials	"Even if I adjust raw material cost, the dip in gross margin sequentially is 250-300 bps. Why?"	Management explained that consolidation at □107/GBP vs □112/GBP created a □2.8 Cr notional inventory valuation loss in Q3. This accounting drag masks the core operational stability of the standalone business.	None	4.0	Clear and quantified
2	4.0	Harsh Shah / D&B	Employee Cost	Financials	"Employee cost has been on a continuous rise... where will this number stabilize?"	CFO stated 10% of sales is the benchmark, with current levels reflecting skilled labor retention for the upcoming 80% capacity utilization ramp. High fixed-cost absorption will improve as the Karran and IKEA volumes flow in Q4.	None	4.0	Logical benchmark
3	5.0	Ayush C. / Shravas	Breakthroughs	Business Overview	"Could you share the deal value for Kohler India?"	Management indicated a starting deal value of ~$1M/ year, emphasizing the prestige of the partnership over initial volume. This secures a high-margin anchor tenant for the underutilized stainless steel capacity.	None	5.0	Specific & credible
4	4.5		Tariffs	Management Outlook	"Are we expecting	Management noted no news	None	3.5	Insightful pivot

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		Resha Mehta / GreenEdge			any tariffs to be imposed on kitchen sinks exported to the US?"	on Quartz sinks and suggested that if metal sinks face tariffs, demand might actually pivot toward Carysil's Quartz products. This turns a major macro risk (Trump tariffs) into a potential product-substitution opportunity.			
5	4.0	Nikhil Gada / Abakkus	Capacity	Capex and Allocation	"When can we see capacity utilization go to 80%?"	Management expects a gradual move from 65% in Q3 to 80% by Q1 FY26, driven by the Karran and IKEA deals. This provides a clear roadmap for operating leverage-led margin expansion in H1 FY26.	None	4.0	Specific timeline
6	4.5	Udit / Yes Securities	Revenue Target	Management Outlook	"The quarterly run rate to take us to □1,000 Cr... when do you expect it?"	Management acknowledged that geopolitical uncertainty makes the timeline hazy, but insisted the Karran deal is a "once in a lifetime" event that makes the target reachable. The □1,000 Cr target is now a medium-term aspiration rather than a FY25 commitment.	None	3.0	Softened guidance

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
7	4.0	Tushar / KamayaKya	Domestic Demand	Business Overview	"Domestic dealers increasing but sales not growing. Why?"	Management cited the North India construction halt (pollution) and a strategic shift from quantity to "value-driven" workstation sinks. Domestic growth is now reliant on premiumization (selling □40k sinks vs □10k) rather than volume.	None	4.0	Plausible
8	4.5	Rupesh Tatiya / Intelsense	US Loss	Financials	"United Granite 9 months had □6 Cr PBT loss. How do you see this doing in FY26?"	CFO stated the subsidiary is now at operating breakeven and will turn profitable in FY26 following the closure of loss-making showrooms. This removes the primary drag on consolidated margins.	None	4.0	Quantified turnaround
9	4.0	Rupesh Tatiya / Intelsense	US Strategy	Business Overview	"US business is only 13-14%... UK is 40%. US should be larger. Updates?"	Management expects the US contribution to jump to 25% by FY26 due to the Karran deal. This shifts the growth engine of the company from the UK to the much larger US market.	None	4.5	Strategic shift

PATTERN FLAGS & SENTIMENT * **The "Perfect Storm" Defense:** Management was highly consistent in explaining the margin compression as a convergence of FX, Freight, and RM. Because they provided specific data points (Freight 6.5% $\rightarrow$ 9.3%, MMA $1.79 \rightarrow$ 2.52), analysts were largely accepting of the "trough" argument. * **US Retail Inflection:** The Karran deal changed the tone of the call. Previously, analysts were skeptical of the US subsidiary; now, the focus has shifted to whether Carysil has the capacity/ molds ready for the volume. Management's confidence here was palpable. * **Domestic Transition:** There is a clear admission that domestic volumes are tough. Management is pivoting to "Aesthetics" and "Workstations" to protect margins, which is a classic defensive move during a retail slowdown.

Analyst Sentiment Verdict: Analysts were **skeptical of the short-term margin miss** but **impressed by the business development breakthroughs**. The Kohler and Karran deals provide significant "street cred" that offsets the temporary earnings volatility. Credibility remains strong as the debt reduction targets were met. The single unresolved issue is the **domestic retail trajectory**, which remains a laggard compared to the export engine.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2)	This Quarter (Q3)	Direction
EBITDA Margin	17.9%	15.2%	↓ Deteriorating
Net Debt	~₹270 Cr (post-QIP)	₹255 Cr	↑ Improving
Freight Cost	Rising (Red Sea)	Crashing (Ceasefire impact)	↑ Improving
US Strategy	Integrating United Gr.	Operational Turnaround/Closures	↑ Improving
Customer Mix	OEM Focus	Strategic Retail (Karran/IKEA)	↑ Improving
Domestic Outlook	Cautiously Optimistic	Value-driven / North India drag	↓ Deteriorating
Raw Material	Rising MMA ($2.33)	Peaked MMA ($2.52)	↓ Deteriorating
New Partnerships	N/A	Kohler India (Steel Sinks)	↑ Improving

STOP HERE.