

## Carysil Ltd — Nov 2022 Quarterly Analysis

### 1. VERDICT & BUSINESS QUALITY SNAPSHOT

**Result:** Weak Miss **One-line:** A "reset" quarter where macro-driven export destocking and currency volatility hit margins, but the long-term thesis is actually bolstered by a widening cost advantage over European competitors.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Weak Miss	Revenue down 18.7% QoQ; EBITDA margins collapsed from 20.1% to 16.3%.	□
Earnings Quality	Moderate	PAT hit by ₹2.5 Cr notional FX loss; however, H1 OCF (₹59.2 Cr) remains robust vs PAT (₹27.9 Cr).	□
Guidance Confidence	Neutral	Reaffirmed ₹1,000 Cr vision but admitted a likely 12-month delay due to global headwinds.	□
Management Credibility	Strong	Proactively postponed Quartz capex to preserve capital; pivoting to Appliances where demand is immediate.	□
Business Quality Signal	Improving	Moat is widening; cost advantage vs EU peers grew from 25% to 40% due to energy crisis.	□
Key Q&A Exchange	Q# 11 — Appliance Strategy	Mgmt identifies ₹1,500 Cr premium appliance market with only 5 major players; aiming for ₹120 Cr revenue.	□
The Street's Primary Anxiety	Export Recovery	Concerns over "4-month" customer inventory; Mgmt expects ordering to resume only in Q4 FY23.	□
Capital Cycle Stage	Consolidation	Postponing Quartz Sink capex; focus shifting to sweating existing 1Mn unit capacity.	□
Margin Trajectory	Deteriorating	Hit by operating deleverage and FX; Mgmt expects margins to "bottom out" this quarter.	□
Pricing Power	Expanding	Despite volume drop, realized prices in India remain 20-25% premium over Steel Sinks.	□
FCF Conversion & Quality	Strong	H1 CFO-to-PAT ratio of 2.1x; business continues to generate cash despite the P&L slowdown.	□
Competitive Moat Signals	Widening	IP filings for "Green Sinks" and "SuperX" (unbreakable) technology to differentiate from Morbi players.	□
Balance Sheet Strength	Adequate	Net Debt increased to ₹176.1 Cr (from ~₹150 Cr) to fund STL; Net Debt/Equity still manageable at ~0.6x.	□
Working Capital Efficiency	Deteriorating	Inventory rose to ₹130.6 Cr (Sept) from ₹104.2 Cr (Mar) as finished goods piled up amid export slowdown.	□
Mgmt Guidance Track Record	Reliable	Consistent on domestic execution (H1 Rev +58% YoY); pragmatic on global macro timing.	□
Key Vulnerability	Inventory Overhang	4 months of inventory at big-box retailers (IKEA/Home Depot) acts as a hard ceiling on Q3 growth.	□
Management Tone	Pragmatic/Bullish	Honest about "soft" near-term quarters but highly opportunistic about "Europe + 1" long-term.	□

**Key Takeaways (Positives & Negatives):** \* **Positives:** The long-term competitive moat is widening. Management confirmed that the European energy crisis has pushed Carysil's cost advantage over German/

Italian competitors to **40% (up from 25%)**. Domestic growth remains explosive, with H1 revenue up **58% YoY**, and a clear path to **₹300 Cr** revenue by doubling the sales force. Cash flow generation remains excellent (CFO-to-PAT > 2.0), providing a cushion during the slowdown. \* **Negatives:** The **"Export Air Pocket"** is deeper than expected. Customers are sitting on **4 months of inventory**, which will lead to a very soft Q3. Operating deleverage and notional FX losses dragged EBITDA margins to **16.3%**—the lowest in 2.5 years. Management has officially "pushed back" the Quartz capacity expansion of 200k units, signaling near-term growth will be sluggish. \* **Street Concern:** Analysts were fixated on when the destocking ends. Management's response—"Q4 FY23"—implies that the current quarter (Q3) will likely be another period of pain. \* **Forward Watchpoint:** Watch for the launch of **SuperX technology** in Q4; if it truly reduces breakages and packaging costs, it could structurally reset the margin floor higher.

## 2. BUSINESS PERFORMANCE

### 2A. KEY METRICS

Metric	Current Qtr (Q2)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	139.2	↑ 14.2%	↓ 18.7%	↓	Driven by STL consolidation; organic exports declined 21% YoY.
Gross Margin (%)	49.3%	↓ 5.8%	↓ 0.8%	↓	PPT RM 70.6 Cr vs 139.2 Cr Rev. Impacted by higher freight/import costs.
EBITDA (₹Cr)	22.7	↓ 23.6%	↓ 34.0%	↓	Hit by operating deleverage and FX volatility.
EBITDA Margin %	16.3%	↓ 810 bps	↓ 380 bps	↓	Lowest margin since 2020; hit by fixed cost under-absorption.
PAT (₹Cr)	9.2	↓ 48.0%	↓ 51.1%	↓	Impacted by ₹2.5 Cr FX loss and higher interest costs.
ROCE (%)	21.8%	↓ 220 bps	-	↓	FY22 was 24%; compression due to acquisition debt and lower EBIT.
Cash Flow (OCF) (₹Cr)	59.2	↑ 59.1%	-	↑	H1 figure. Strong cash collection despite P&L weakness.
Net Debt (₹Cr)	176.1	↑	↑	↓	Current Borrowings (119+73.3) minus Cash (7.4+8.8).
Interest Coverage (x)	4.3x	↓	↓	↓	PPT Q2 EBIT 16.5 Cr / Finance Cost 3.8 Cr.
Inventory Days (DIO)	154	↑	↑	↓	Inventory (130.6) / COGS (70.6) * 91 days. (Mar-22 was ~85 days).
Volume: Quartz Sinks	127,217	↓	↓	↓	Derived: H1 (297,252) minus Q1 (170,035).
Volume: SS Sinks	29,686	↑	↑	↑	Derived: H1 (58,294) minus Q1 (28,608).
Revenue (Domestic)	33.0	↑ 20.0%	↓ 13.2%	↓	Softness due to prolonged monsoons; target 3,000 dealers.
STL Revenue (Mn GBP)	3.6	↑ 14.8%	↓ 10.0%	→	UK subsidiary performing well; resilient "made-to-order" model.

### 2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Avg	Key Development
Quartz Sink	77.9	↓ 13.0%*	High	↓	Above	*Ex-STL basis. 56% of Revenue; Exports hit by destocking.
Steel Sink	16.7	↑	Mid	↑	Below	12% of Revenue; Expansion of 90k units by Dec-22.
Appliances/Other	13.9	↑	High	↑	Above	10% of Revenue; 200k unit assembly line announced.
Solid Surface (STL)	30.6	First Entry	16-17%	→	Inline	22% of Rev; UK market leader with 35% share.

### 3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	₹1,000 Cr in 2-3 years.	Needs ₹230 Cr/quarter avg. Currently at ₹139 Cr. High risk of 1-yr delay.	Mixed	Moderate (Macro)
Guidance	Margins	Return to 20%+ levels.	Needs volume recovery to absorb fixed costs + FX stability.	Mixed	High (EU Energy)
Guidance	Capacity	200k Appliances (FY24).	₹20 Cr Capex. Phase 1 (100k) in Q1FY24.	New	Execution Risk
Guidance	Distribution	3,000 Dealers by Mar-23.	Needs 800 new dealers in 2 quarters. (400/qtr).	Met	On Track
Strategy	Capex	Postpone 200k Sinks.	Preserves ₹15-20 Cr cash during global uncertainty.	New	Growth Delay
Strategy	Tech Moat	SuperX Sink Launch.	Launch in France/Dubai (Dec-22). Claims "Unbreakable."	New	Adoption Risk
Macro	Exports	Q4 FY23 Recovery.	Depends on 4-month inventory liquidation at IKEA/Home Depot.	New	High (Recession)

## 4. ANALYST Q&A

---

Q#	Relevance	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.5	Pranav Mehta / Equirus	Demand	Outlook	"Is it correct that demand for Quartz sinks should pick up from 4Q onwards?"	Mgmt confirmed that while secondary sales are growing (retail/online), primary orders are hit by channel destocking which should clear by Q4. This implies Q3 will remain a period of low realization and volume pressure.	None	4.0	Specific timeline
2	5.0	Pranav Mehta / Equirus	Competition	Moat	"How much can you see a kind of market share gain... because of [EU Energy Crisis]?"	Mgmt stated European competitors are increasing prices every few weeks, making Carylil the world's most competent low-cost producer with a 35-40% price gap. This structurally improves Carylil's ability to win large OEM contracts in FY24.	None	4.5	Strategic Beat
3	4.0	Pranav Mehta / Equirus	Margins	Financials	"Was the standalone EBITDA margin impacted by operating deleverage?"	CFO confirmed the 12% standalone sales drop led to under-absorption of fixed costs, aggravated by a ₹2.5 Cr notional FX loss. This suggests margins will automatically rebound once quarterly revenue crosses the	None	4.0	Clear explanation

Q#	Relevance	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						₹100 Cr standalone threshold.			
4	3.5	Harshil Shethia / AUM	Capex	Strategy	"Why are we not going ahead with the capex and putting up the capacity upfront?"	Mgmt clarified they already have 1Mn unit capacity which is sufficient for current demand; further 500k expansion can be commissioned within 6 months if needed. This preserves the balance sheet while maintaining optionality.	None	5.0	Rational defense
5	3.0	Harshil Shethia / AUM	Market Share	Business	"What is the global industry size and Schock market share?"	Mgmt estimated the global Quartz market at 5Mn units, with Schock technology (licensed by Carysil) holding ~80% share. This confirms the dominance of the technical moat in a niche category.	None	4.0	Data verified
6	4.0	Udit Gajiwala / Yes Sec	Appliances	Financials	"What will be the revenue potential from the [Appliance] capex?"	Mgmt expects ₹120 Cr peak revenue from the 200k unit assembly line (₹20 Cr capex) by FY25. This creates a new high-margin revenue stream that leverages the existing dealer network.	None	4.5	Specific guidance
7	4.0	Nikhil Gada / Abakkus	Volumes	Outlook	"Is it possible to achieve the sort of run rate we	Mgmt is 100% confident in a rebound, citing that home	None	3.5	High conviction

Q#	Relevance	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					used to do prior to the slowdown?"	improvement (hybrid culture) remains a structural global trend. This reinforces management's long-term conviction despite the current cyclic lull.			
8	4.5	Pritesh Chheda / Lucky	Margins	Financials	"The half yearly gross margin is down 500 to 600 basis points... is it to do with resin?"	Mgmt attributed the gross margin hit primarily to the consolidation of lower-margin STL and peak freight costs, noting freight has now returned to pre-Covid levels. This indicates a likely gross margin expansion in the second half of the year.	None	4.0	Margin floor set
9	3.5	Anika Mittal / Nvest	Competition	Strategy	"Will we be able to get that much growth from Appliances compared to Quartz?"	Mgmt noted that Carysil competes in the ₹1,500 Cr organized premium appliance market with only 5 major players (Elica, Faber, etc.). This competitive landscape suggests Carysil can gain share without a destructive price war.	None	4.0	Market mapping
10	4.0	Chirag / RatnaTraya	Inventory	Outlook	"What kind of inventory days [do	Mgmt revealed that major customers are	None	5.0	Critical data

Q#	Relevance	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					customers] carry and currently what those numbers would be?"	sitting on 4 months of inventory. This is the most critical data point of the call, explaining the current revenue stagnation.			
11	3.5	Ranodeep / MAS	Strategy	Business	"What is the game plan in terms of ramping up India penetration?"	Mgmt is doubling the India sales force and hired Deloitte to draft a roadmap for ₹300 Cr domestic revenue in 2-3 years. This confirms India is no longer an "afterthought" but a core growth driver.	None	4.5	Quantified plan
12	4.0	Ranodeep / MAS	Technology	Moat	"How will you defend this exclusivity... what is the reason which will ensure you remain exclusive?"	Mgmt highlighted two new global IP filings (Green Sinks and SuperX technology) and Schock's refusal to license to other Indian partners. This protects the company from the commoditization risk seen in the ceramic/tile industry.	None	5.0	Moat reinforced

**PATTERN FLAGS & SENTIMENT** \* **Theme: The Inventory Air Pocket.** Analysts were clearly spooked by the revenue drop. Management's disclosure of a "4-month" inventory overhang at the customer level provided a sobering reality check. While this explains the miss, it pushes the recovery timeline to Q4. \* **Theme: Pivoting to Appliances.** A shift in capital allocation occurred this quarter—canceling sink expansion to fund appliance assembly. Analysts were skeptical about competition, but management's focus on the "premium organized" niche appeared to mitigate concerns. \* **Analyst Sentiment Verdict:** Skeptical on near-term P&L, but impressed by long-term strategic positioning. The Energy Crisis "Europe + 1" narrative is the glue holding the bull case

together. Friction remains around the margin floor (16% vs the historical 20%+), but management effectively communicated that this is a cyclical bottom.

## 5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY23)	This Quarter (Q2 FY23)	Direction
<b>EBITDA Margin</b>	20.1%	16.3%	↓
<b>Quartz Expansion</b>	Commenced 160k units; targeting 1.2Mn	Postponed 200k expansion; preserving cash	↓
<b>Appliance Strategy</b>	Secondary segment	Announced 200k unit manufacturing/assembly	↑
<b>Customer Inventory</b>	High but liquidating	Quantified at "4 Months"	↓
<b>Company Name</b>	Acrysil Limited	Carysil Limited (Effective Nov-22)	↑
<b>Cost Moat</b>	25% cheaper than EU peers	35-40% cheaper due to EU energy crisis	↑
<b>Revenue Mix</b>	71% Export / 29% Domestic	77% Quartz / 12% Steel (Product shift)	→
<b>Net Debt</b>	~₹150 Cr	₹176.1 Cr	↓
<b>Domestic Target</b>	Not specifically quantified	₹300 Cr in 2-3 years (Deloitte Roadmap)	↑

**INVESTOR NOTES:** \* **Thesis Integrity:** Intact. The short-term slowdown is a macro-driven volume air pocket, not a loss of competitive position. \* **Working Capital Lever:** DIO spiked from ~85 to 154 days. This is the primary reason for the debt increase and must be watched. If destocking doesn't end by Q4, the company may face cash flow stress. \* **The "SuperX" Catalyst:** This is the most significant upcoming technical catalyst. If "unbreakable" sinks reduce the 3-5% breakage rate common in transit, it significantly boosts net realizations and customer stickiness for online channels like Amazon/Home Depot. \* **Earnings Quality:** Strip out the ₹2.5 Cr FX loss, and the EBITDA margin would have been ~18%. The business is more resilient than the headline 16% margin suggests.