Carysil Ltd — Nov 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline **One-line:** Carysil is delivering resilient top-line growth through export market share gains (UK/US), but the thesis is currently tested by a massive divergence in cash flow due to strategic inventory stocking and margin pressure from logistics and raw material volatility.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	Revenue □207.1 Cr grew 25.8% YoY; H1 run-rate aligns with $100M (□840 Cr) guidance.	□
Earnings Quality	Low (Cash Flow Divergence)	CFO for H1FY25 is negative (-□33.8 Cr) despite PAT of □33.0 Cr due to heavy working capital blockage.	□
Guidance Confidence	Neutral	Mgmt maintains $100M target for FY25; H2 needs □431 Cr (vs □409 Cr in H1), which is mathematically feasible.	□
Management Credibility	Strong	Successfully integrated United Granite (operating breakeven) and executing on the "India Hub" substitution strategy.	□
Business Quality Signal	Stable	Domestic retail is muted but growing 14%; Quartz utilization at 65% leaves room for growth without immediate heavy capex.	□
Key Q&A Exchange	Q#4, Q#15: Margins	Mgmt insists 20% EBITDA is the goal, but admits freight and RM are persistent drags.	□
The Street's Primary Anxiety	Margin Compression	Concern over EBITDA margin dropping from 20.6% to 17.9% YoY; Mgmt cited Red Sea freight and Acrylic price spikes.	□
Capital Cycle Stage	Investment	Expanding faucet and appliance capacity while building a domestic B2C brand footprint.	□
Margin / Return Ratio Trajectory	Deteriorating	EBITDA margins compressed 270bps YoY; ROCE likely pressured by increased inventory.	□
Pricing Power	Stable	Realizations marginally impacted by mix (lower realization in SS Sinks) rather than price cuts.	□
FCF Conversion & Quality	Weak	CFO/PAT at -1.02x for H1FY25; significant inventory build for BIS appliance certification and stock-outs.	□
Competitive Moat Signals	Widening	Gaining share in UK; BIS certification on appliances (Jan 1) likely to wipe out unorganized Chinese importers.	□
Balance Sheet Strength	Adequate	Net Debt reduced significantly to □153.0 Cr following QIP; D/E improved to 0.3x.	□
Working Capital Efficiency	Deteriorating	Inventory spiked to □205 Cr (vs □173 Cr in Mar-24); H1 WC change is -□99.3 Cr.	□
Mgmt Guidance Track Record	Reliable	Consistently hitting revenue targets; US subsidiary nearing PBT breakeven as promised.	□
Key Vulnerability / Red Flag	Cash Flow Drain	H1 negative operating cash flow (-□33.8 Cr) is a stark reversal from H1FY24 (+□69.2 Cr).	□
Management Tone	Cautiously Optimistic	Strong on export momentum and US turnaround; defensive on domestic retail softness.	□

Sentiment: □Positive | □Negative | □Neutral

Key Takeaways: * **Positives:** Carysil is successfully weathering a global home-improvement slump, growing revenues 26% YoY. The US subsidiary (United Granite) has hit operating breakeven, and the strategy to substitute expensive European products with India-made goods is improving unit economics. The upcoming BIS certification for kitchen appliances (Jan 1, 2025) provides a major competitive tailwind by restricting unorganized Chinese imports. * **Negatives:** Operating margins are being squeezed by "tripled" freight costs and high acrylic prices. Most concerning is the **working capital bloat**; inventory levels have surged to protect against supply chain disruptions and BIS-related stocking, resulting in negative operating cash flow for the half-year. * **The Street's Concern:** Analysts are focused on the "floor" for margins and the timing of the United Granite turnaround. Management maintains that 18% is the trough and 20%+ is the normalized target, contingent on freight easing. * **Watchpoint:** Monitoring the inventory unwind in Q3/Q4. If the □205 Cr inventory does not convert to cash by March 2025, it signals a deeper demand issue rather than just strategic stocking.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *PPT used as primary source; Concall used for commentary.*

Metric	Current Qtr (Q2FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□Cr)	207.1	↑ 26.6%	↑ 2.9%	↑	Driven by strong export performance in US/UK and 14% growth in domestic.
Gross Margin (%)	55.6%	↓ 1.6%	↓ 1.1%	↓	Impacted by high RM (Acrylic) prices and adverse product mix.
EBITDA (□Cr)	37.1	↑ 9.4%	→ 0.0%	→	Topline growth offset by RM and export freight costs.
EBITDA Margin %	17.9%	↓ 270 bps	↓ 40 bps	↓	Freight costs "tripled" due to Red Sea; 18% seen as the floor.
PAT (□Cr)	17.1	↑ 9.6%	↑ 7.5%	↑	PAT growth slightly ahead of EBITDA due to operational leverage.
EPS (□)	2.98	↑ 2.4%	↑ 5.7%	↑	Diluted by QIP; standalone PAT at □7.8 Cr vs □9.8 Cr YoY.
CFO/EBITDA (%)	-45.6%	↓	↓	↓	H1 CFO is -□33.8 Cr vs EBITDA of □74.1 Cr. Very poor conversion.
Net Debt/Equity (x)	0.31	↓	↓	↑	Improved from ~0.7x following □125 Cr QIP; Net Debt at □153.0 Cr.
Interest Coverage (x)	5.21	↓	↓	↓	EBIT □29.2 Cr / Finance Cost □5.6 Cr. Interest costs rising.
Quartz Sink (Units)	1,59,814	↑ 25.5%	↑ 3.0%	↑	H1 total: 3,15,044. Strong volume recovery from low base.
SS Sink (Units)	41,408	↑	↑	↑	H1 total: 79,167. Capacity utilization >90%.
Appliances/ Faucets (U)	15,126	↑	↑	↑	H1 total: 28,877. Focused on domestic BIS transition.
Revenue: Domestic (%)	18.3%	↓	↓	→	H1 domestic rev □75 Cr (14.2% growth). Muted retail demand.
Revenue: Int'l (%)	81.7%	↑	↑	↑	Exports dominate; UK/US subsidiaries performing well.
Working Capital (Days)	128	↑	↑	↓	DIO jumped significantly to 90+ days due to inventory build.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin (EBITDA)	Trend	vs Avg	Key Development
Standalone (India)	105.4	↑ 11.2%	16.3%	↓	Below	Hit by export freight and raw material costs.
Carysil Surfaces (UK)	~92.0 (H1)	↑	Positive	↑	Above	Gaining market share in UK; access to loyal base.
United Granite (US)	~66.0 (H1)	↓ 20%	Breakeven	↑	Below	PBT loss of □3.5 Cr in Q2; substitution strategy working.
Faucets/ Appliances	N/A	↑	N/A	↑	N/A	Capacity expanding to 100k units each for H2 ramp-up.

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 □431 Cr in H2 (current H1 is □409 Cr). Highly feasible.	Reliable	Low
Guidance	Margins	18% - 20% EBITDA.	Needs 200bps expansion in H2. Depends on freight/RM.	Mixed	Medium
Guidance	Volume	100k Faucets & 100k Appliances.	Requires doubling production/sales in H2.	New target	High
Strategy	Capex	□35 - □40 Cr for FY25.	□20 Cr spent in H1; □15-20 Cr remaining. Feasible.	Reliable	Low
Strategy	US Operations	United Granite turnaround by FY26.	Monthly profitability seen in Oct-Nov; PBT breakeven expected soon.	Tracking	Medium
Macro	Logistics	Red Sea Freight pass-through.	Passing on costs where possible; 10% CIF exposure limits damage.	Delivering	Low
Balance	Leverage	Net Debt Reduction.	QIP funds significantly deleveraged BS. D/E now 0.3x.	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	Anay Mittal / Nvest	Margins	Financials	"Margins are on the lower side last 4 quarters... how will they improve?"	Mgmt noted that US sales (high margin) were down and freight/ acrylic costs were up, but order traction in US is returning for Q3. If freight stays down and mix improves, 20% EBITDA is reachable by FY26.	None	4.0	Directional floor
2	4.0	Anay Mittal / Nvest	Domestic	Business Overview	"How do you see the H2 domestic demand given inflation/ unemployment?"	Mgmt admitted the retail economy is muted but claimed to outperform peers via faucet growth (50%) and new appliance launches. Success in domestic hinges on the e-commerce ramp-up and premium segment resilience.	None	3.0	Mixed demand
3	4.5	Harsh Shah / D&B	Margins	Financials	"Gross margin in standalone dropped from 61% to 58%. Is this the new normal?"	CFO clarified that the 3% drop is due to higher RM prices and geography mix, but expects normalization as RM prices trend down. This suggests gross margins should revert toward 60% in H2.	None	4.0	Margin reversal
4	5.0	Harsh Shah / D&B	US Subs.	Financials	"Quantify the loss in United Granite for FY24 vs now."	Mgmt confirmed United Granite was profitable at acquisition (Oct-23) but turnover fell 20% due to soft US	None	5.0	Clear and quantified

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
						macro, leading to a □5.7 Cr PBT loss in H1. If the substitution strategy continues, this subsidiary becomes a margin accretive asset in FY26.			
5	4.0	Harsh Shah / D&B	QIP / Capex	Capex and Allocation	"How much of QIP is used for Capex and when will capacity come stream?"	Only □4.5 Cr of QIP used for Capex so far; the infrastructure for 1M sinks is ready, and additional molds/ stations take <90 days. Mgmt is sitting on cash, waiting for "big deals" to trigger further expansion.	None	4.5	Conservative spend
6	4.5	Abhilasha / Quantum	Cash Flow	Financials	"Working capital looks elevated... inventory levels have gone up significantly. Why?"	Mgmt intentionally stocked up for 3-4 months to avoid BIS certification disruptions and stock-outs in appliances. This explains the □33.8 Cr OCF drain; a normalization is expected in Q3/ Q4.	None	4.0	Intentional drag
7	3.5	Reesha Mehta / GreenEdge	Product Mix	Business Overview	"What exactly was the 'inferior' product mix in US?"	US sinks are larger (33"x22") and realize 10-20% higher value than average export sinks. A drop in US volume disproportionately impacts both blended	None	4.0	Valuable insight

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
						realization and EBITDA margins.			
8	4.0	Reesha Mehta / GreenEdge	BIS Certification	Management Outlook	"How exactly are we positioned to benefit from BIS in appliances?"	Jan 1 implementation will halt Chinese imports of kitchen hoods/hobs, wiping out unorganized competition. This is a primary catalyst for the domestic appliance target of 100k units.	None	4.5	Regulatory tailwind
9	3.5	Vaidik / Monarch	SS Sinks	Business Overview	"Reached 90% utilization in SS sinks. Any expansion plan?"	Mgmt is adding a third shift and investing 20 Cr (incl. land) to expand capacity to 250k units in FY26. High utilization proves the strength of the UK subsidiary channel.	None	4.0	Capacity expansion

PATTERN FLAGS & SENTIMENT * **The Working Capital Strain:** Multiple analysts questioned the high inventory and poor cash flow. Management's defense—stocking up for BIS certification and supply chain buffers—is plausible but indicates a "wait-and-see" risk for Q3 cash recovery. * **The US Pivot:** The tone regarding United Granite shifted from defensive to optimistic. Management is now using the US subsidiary to push higher-margin India-made sinks, turning a macro-drag into a supply-chain advantage. * **Domestic Skepticism:** Analysts remain wary of the domestic retail environment. Management's response relies heavily on the BIS catalyst and e-commerce, rather than a broad-based retail recovery.

Analyst Sentiment Verdict: Analysts were **satisfied with top-line resilience** but **highly skeptical of the H1 cash flow profile**. The QIP infusion provides a safety net that prevented negative sentiment from escalating. Management's credibility on the United Granite turnaround is currently "on trial" for the next two quarters.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1FY25)	This Quarter (Q2FY25)	Direction
Balance Sheet	Net Debt ~₹272 Cr.	Net Debt ₹153.0 Cr (approx).	↑ Improving
Cash Conversion	OCF positive (H1FY24).	OCF Negative (-₹33.8 Cr for H1).	↓ Deteriorating
Inventory Strategy	Normal stocking.	Aggressive BIS-related stocking (₹205 Cr).	↓ Deteriorating (WC)
US Performance	Subdued / Loss-making.	Nearing PBT breakeven; Oct-Nov green.	↑ Improving
Stainless Steel	Expanding utilization.	Capacity at 90%+; ₹20 Cr expansion announced.	↑ Improving
Faucets/Appliances	Planning stage.	Capacity live at 100k (Appliances) / 50k (Faucets).	↑ Improving
Revenue Target	₹1,000 Cr run-rate goal.	$100M (~₹840 Cr) for FY25 confirmed.	→ Stable

INVESTOR NOTES: * **CFO Divergence:** The negative ₹33.8 Cr operating cash flow is the most material trend change. Investors must track if inventory reduces by ₹30-50 Cr in Q3 to validate management's "strategic stocking" claim. * **BIS Catalyst:** The Jan 1, 2025 BIS implementation for kitchen hoods is the key re-rating trigger for the domestic business. * **Margin Floor:** 17.9% appears to be the cycle trough. With freight costs easing (as per mgmt) and RM softening, a 100-150bps expansion in Q3 is the expected benchmark. * **United Granite:** The subsidiary is no longer a "bleeding asset" but a "distribution vehicle" for high-margin exports from India.

STOP HERE.