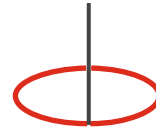


Initiating Coverage

1st June, 2023



DALAL & BROACHA
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Investment Argument:

We initiate on Carysil Ltd with a BUY rating having a target price of INR 726 (22x FY25E) as it is taking the right steps to establish itself as a global leader by being a one stop brand for the kitchen and bath products. It is the only company in Asia and amongst the 4 players in the world having the German Schock technology to manufacture quartz sinks (52% of revenue –FY23). It is a contract manufacturer for the biggest global retailers for the quartz and stainless steel sinks. The company has widened its product basket by offering stainless steel sinks, kitchen appliances and leveraging the quartz technology in the bath segment. We estimate Sales/EBITDA/PAT to grow at 19%/22%/29% CAGR over FY23E-FY25E. We believe Carysil will be able to double its revenue by FY26 due to multiple growth drivers:

- Continuous capacity addition in line with rising demand for quartz and stainless sinks
- Europe+1 opportunity that could play out due to the cost advantage (~35 to 40%) Carysil has over its global peers
- Multifold growth opportunity in Kitchen Appliances
- Strengthening its presence further in UK by acquiring Tickford Orange Ltd which will provide a potential new sales channel and cross selling opportunities.
- Deepening the strategic partnerships with global players such as GROHE, Karran, IKEA
- Expanding into newer geographies such as Australia, New Zealand, Gulf countries, France
- Constantly increasing their presence in the domestic market through expansion of dealer network

Financial Summary

Y/E Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	CAGR FY20-25E
Net sales	2,762	3,097	4,839	5,939	7,004	8,398	24.9%
Growth		12.12%	56.24%	22.73%	17.93%	19.91%	
EBIDTA	464	658	1,033	1,074	1,278	1,596	28.0%
Growth		41.79%	57.04%	3.93%	19.02%	24.84%	
Margins (%)	16.8	21.2	21.4	18.1	18.3	19.0	
Adjusted net profit	120	393	653	528	673	881	48.9%
Growth		226.98%	65.97%	-19.04%	27.31%	30.97%	
EPS (Rs)	4.5	14.7	24.5	19.8	25.2	33.0	
P/E (x)	124	38	23	28	22	17	
EV/EBITDA (x)	34	24	16	16	13	10	
RoCE (%)	13.81%	17.99%	21.72%	15.35%	15.86%	17.90%	
RoE (%)	14.27%	20.27%	25.40%	17.21%	18.12%	19.32%	

Source: Dalal & Broacha

Investment Rationale:

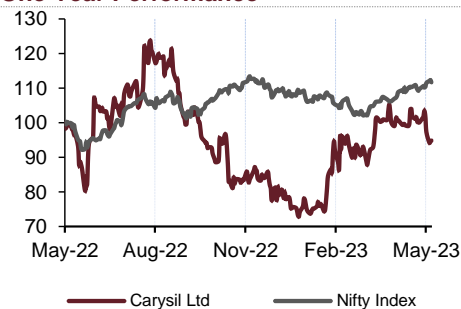
Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	726	29

Market data

Current price	Rs	561
Market Cap (Rs.Bn)	(Rs Bn)	15
Market Cap (US\$ Mn)	(US\$ Mn)	182
Face Value	Rs	2
52 Weeks High/Low	Rs	743.35 / 431.05
Average Daily Volume	('000)	58
BSE Code		543689
Bloomberg		CARYSIL.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-23	Dec-22
Promoters	38.84	38.84
Public	61.16	61.16
Total	100	100

Source: Bloomberg

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➤ **Only Company in Asia to manufacture Quartz sinks with German Technology**

Carysil is Asia's only manufacturer of quartz sinks and globally among the 4 players who manufactures it with the Schock technology. Predominantly Carysil is an export oriented company as the demand for its key product (Quartz sinks – 52% of revenue) mainly arises from key geographies such as Europe and USA. ~75% of its sales volume are white labelled and remaining ~25% in its own name. As on FY21 the market share of quartz sinks in the overall global sinks volume is ~10% (~3% -10 years back) which is estimated to reach ~15% to 20% by FY26 clearly indicating that the quartz sinks will gain market share and Carysil should be able to pounce on the opportunity lying ahead. Carysil has created its own niche in the quartz sinks with the Schock technology.

➤ **Continuous capacity expansion in line with rising demand**

The company has increased its capacity in the quartz and stainless sinks over the years in a phased manner which is in proportion to the rising demand. In the last 10 years the capacity of quartz sinks has gone up by ~4.5x (currently ~10,00,000)

In order to cater to a larger target market, the company entered into manufacturing of stainless steel sinks in FY11. It offers Press sinks and Quadro sinks (premium product) within the stainless sinks segment.

Recent capacity expansion announcements:

On 30th August 2021, company announced a capacity expansion in quartz sinks by 1,60,000 units p.a at a cost of ~Rs 380 Mn taking the total capacity to 10,00,000 units p.a. Commercial production began in June'22.

On 11th November 2021, company announced a further capacity addition of 2,00,000 units in quartz sinks which is currently put on hold due to global uncertainties.

In FY23, the company had announced doubling of capacity in the stainless sinks to 1,80,000 units which should begin commercial production in Q1FY24 at a cost of ~ Rs 110 Mn.

The current land is fully utilized while the plant is running at 65% capacity utilisation therefore the company recently went ahead with the acquisition of ~60,000 sqmts land near existing plants in Bhavnagar, Gujarat for the next phase of growth at a cost of ~Rs 80 mn.

➤ **Deepening the strategic partnerships with global players such as GROHE, Karran, IKEA**

~75% of volumes sold by Carysil are white labelled

In FY19, Carysil entered into a partnership with GROHE to supply composite quartz sinks. It is the sole supplier of quartz sinks for GROHE. In FY22 the partnership further strengthened as it entered into a tie up to supply stainless steel kitchen sinks.

On 27th March 2023, the company announced that it has renewed its contract with Karran INC, USA for supply of quartz sinks for value of ~ USD 68 million equivalent to ~ Rs 5500 Mn over 5 years commencing from FY24. Earlier the yearly contract value was ~Rs 700 Mn-800 Mn which is now close to Rs ~1100 Mn (growth of ~ 47%). This is a significant deal as the size of order is close to ~15% of FY22 revenue providing visibility in their topline.

In FY21, Carysil entered into a partnership with IKEA to supply quartz kitchen sinks and since then the volume supplied has now doubled. The company should be able to lever this relationship further to cross sell other products. This tie up is a clear sign of how Carysil is being recognized for its product quality on a global stage.

In USA it fulfills online demand for companies like Lowe's , Home Depot and Karran.

➤ **Europe+1 Opportunity due to cost benefit**

The ongoing geo-political tensions and energy crisis in Europe presents a very strong opportunity for Carysil on a medium to long term basis. As a result, their production costs have grown up to a very large level. Currently, 3 million to 4 million sinks are being manufactured in that area around Germany and Italy. The rise in cost and sustained escalating cost inflation levels will ultimately work to Carysil's advantage. Earlier the cost difference was ~15-20% in favour of Carysil and post this crisis the difference has shot upto by ~35% to 40% as per the management. This cost benefit that Carysil has should definitely open up newer opportunities from global retailers as they would prefer sustainable supply without such massive price hikes. The company did mention that they are in an advanced stage of negotiation with certain global players for the supply of its products. Since the supply of quartz sinks is done on a contractual basis, any further agreements should provide revenue visibility.

➤ **Multifold growth opportunities in Kitchen Appliances**

One of the product segments which is gaining momentum in India is Built-in Kitchen Appliances. Consumers are now desiring kitchen space which is more up-to date with the latest trends. The global kitchen appliances industry has been progressing over the years due to its innovative products. The built in kitchen appliances have a more sophisticated appeal and offers an advanced kitchen experience. The change in lifestyle and increased disposable income has prompted the consumers to shift onto the modern kitchen appliances for their needs. The kitchen appliances market is witnessing a CAGR of 6% over 2020-2027 and is expected to reach a market size of USD 378 billion by 2027.

Products offered: chimneys, cook-tops, wine chillers, dish washer, built in ovens, micro wave ovens, ice and coffee makers and many more. The company is also adding capacity of 10,000 units in faucets division which should start production in FY24.

Earlier Carysil used to manufacture some kitchen appliances and majorly was engaged in trading of these appliances. In FY22 the company announced an expansion plan in the built in kitchen appliances segment where they would be doing the assembling of ~2,00,000 kitchen appliances per year. The expansion would be done in 2 phases:

Phase	Units (lacs)	Date of CP	Capex	Revenue Potential
1	100,000	Q2FY24	100 Mn	700-800 Mn
2	100,000	Q4FY24	100 Mn	700-800 Mn
	200,000		200 Mn	1400-1600 Mn

➤ **Strengthening its presence further in UK by acquisitions which will provide a potential new sales channel and cross selling opportunities.**

- Carysil Products Limited [APL] (Formerly known as Homestyle Products Limited):
To enter a new market directly has its own set of challenges which is why Carysil acquired APL 8 years ago which used to import Quartz sinks and sell it in UK. Post acquisition all the imported quartz sinks were replaced by Carysil's products. From FY17-22, the revenues of APL grew at a CAGR of 20% to 9.7 Mn GBP while the revenue from quartz sinks within the company grew at CAGR of 54%.
- Carysil UK Limited, a wholly owned subsidiary of Carysil Limited, acquired 100% equity shares of Tickford Orange Limited (TOL), UK. TOL is the parent company of its wholly owned subsidiary Sylmar Technology Limited (STL), a manufacturer and distributor of customised high-quality solid surface products for kitchen and bathroom segment. The total consideration of this acquisition worth £11 million is funded by a mix of both debt and internal accruals. STL is a leading player in the UK solid surface market, with an estimated market share of 35%. With this acquisition Carysil will be able to cross sell their brand and enter into a complimentary segment on home improvement product category.
- It recently acquired 70% of equity in Tap factory (UK) wherein the company designs and sources bathrooms and kitchen products mainly Instant boiling water tap. With this acquisition the company now has all the leading kitchen brands and will help to broaden product basket.

➤ **Traction from Newer Geographies**

In Australia, the company has received a significant response for its kitchen and bathroom products. It has proposed to incorporate a wholly owned subsidiary Dubai, UAE to cater the GCC market, focusing on the sale of the kitchen and bath product. The company is planning to open an exclusive showroom and display of their product in the prominent place across along with the warehouse in FTZ in Dubai. The rationale is to increase their presence in emerging markets especially GCC where Saudi Arabia is expected to be a big potential market.

➤ **Increasing Penetration in Indian Markets**

The domestic market is witnessing steady rise in demand. Indian home improvement spending, especially in case of kitchen and bathroom lifestyle products, are on an upward trajectory. From 400 dealers in FY14 the count would reach ~3000 by FY23. The company is trying to leverage its brand STERNHAGEN (premium products) to increase its brand visibility. The company is targeting domestic sales of ~Rs 2500 Mn to Rs 3000 Mn in the next 3 years from ~Rs 960 Mn in FY22.

VALUATION & OUTLOOK

Post the pandemic the demand for home improvement and aesthetically appearing products has seen major green shoots globally. There could be some temporary slowdown in the overall demand due to macro headwinds but we remain very positive on the business over medium to long term basis. We expect Sales/Ebitda/Pat to grow at 19%/22%/29% from FY23E-25E on the basis of partnerships with global retailers providing revenue visibility, expanding into newer geographies, strategic acquisitions in UK and increased demand for the products they offer. In our opinion Carysil is taking the right steps to be a major player in the kitchen and bathroom segments and is well poised to take advantage of the opportunities that are present.

We initiate coverage on Carysil valuing the company at 22x FY25E, arriving at a Target Price of Rs 726, upside of 29% and recommend investors to ACCUMULATE between Rs 550 to 600.

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