December 29, 2022

Carysil Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit/Working Capital Limit	82.00	117.00	[ICRA]A(Stable); Reaffirmed/Assigned for enhanced amount
Fund-based Interchangeable Limit	(82.00) #	(117.00) #	[ICRA]A(Stable); Reaffirmed/Assigned for enhanced amount
Fund-based Term Loan	49.31	45.40	[ICRA]A(Stable); Reaffirmed
Non-fund Based Letter of Credit	10.00	10.00	[ICRA]A2+; Reaffirmed
Non-fund Based Stand by Line of Credit	(10.00) #	(10.00) #	[ICRA]A2+; Reaffirmed
Non-fund Based Bank Guarantee	(25.00) #	(25.00) #	[ICRA]A2+; Reaffirmed
Total	**141.31**	**172.40**	

**Instrument details are provided in Annexure-I;*
#WCDL of Rs. 92.0 crore, Export Credit/BC/ULC/SLC/CC/BD/EPC/PCFC of Rs. 117.0 crore, FBD/FBN/FBP of Rs. 35.0 crore, Bank Guarantee of Rs. 25.0 crore and CC of Rs. 20.0 crore is sublimit of Cash Credit/Working capital limit.

Rationale

The ratings reaffirmation continues to consider the extensive experience of the promoters of Carysil Limited (Carysil, erstwhile Acrysil Limited) and the established position of the Carysil Group in the kitchen sink industry, along with the diversified product portfolio and the reputed clientele of the company. It also derives comfort from the increasing scale of operations marked by a YoY growth of 56% in its operating income in FY2022 and healthy return indicators. The ratings further factor in the comfortable capital structure and debt coverage metrics as reflected by an interest coverage of 9.59 times, TD/OPBIDTA of 1.31 times in FY2022 and an adequate liquidity position.

The ratings, however, are constrained by the near-term demand pressure in the key export markets, coupled with stiff competition from other established players, though it is favourably placed in terms of cost efficiency as the manufacturing operations are based in India. Further, its operations are working capital-intensive due to the high inventory holding period and the relatively longer collection cycle. Its profitability is vulnerable to raw material prices and adverse forex movements, although the risk is partially mitigated by the natural hedge in terms of imports. ICRA also notes that the company has undertaken capex of around Rs. 73 crore in FY2022 and has planned capex of around Rs. 20 crore in FY2023 to increase the manufacturing capacity of sinks. Though this provides to company the leverage to capitalise on the growing demand, but Carysil's ability to timely commission and successfully stabilise and scale-up operations to generate commensurate returns from the same remain critical from the credit perspective. The company has already deferred its capex related to expansion of the sink capacity by 2 lakh units to FY2023 due to weakening export demand.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that Carysil will continue to maintain its business positioning in the Composite Quartz kitchen sink industry and will benefit from the rising penetration of Composite Quartz sinks in the domestic sector as well as continuing demand from exports.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established presence of Group in kitchen sink industry – Carysil was incorporated in 1987 and is the leading manufacturer of granite-based kitchen sinks in India, also known as 'Composite Quartz Sink'. Its promoters have over three decades of experience in the kitchen sink industry (both granite and steel sinks). The promoters' long experience in the industry, apart from their established relationships with suppliers and customers, is expected to support the business profile.

Diversified product portfolio – The company at the consolidated level has diversified into various products such as granite and stainless-steel kitchen sinks, and the bath segment. Italso trades in kitchen appliances and has plans to start in manufacturing/assembling of the same in the near term. Product/segmental diversification is expected to result in operational synergies to support Carysil's future revenue growth.

Financial profile continues to be comfortable, reflected by healthy debt coverage indicators and comfortable capital structure – At the consolidated level, the operating income grew by 56% to Rs.483.9 crore in FY2022 from Rs. 309.72 crore in FY2021 on the back of an increase in demand of its products. In H1FY2023, the company reported sales of Rs.310 crore (including sales of ~Rs.50 crore from the newly acquired entity, Sylmar Technology Limited) (H1FY2022: Rs.217.0 crore) on a consolidated basis. ICRA expects Carysil to continue with its growth trajectory, supported by growing demand in the domestic markets. The profit margins remained largely similar marked by operating margin of 21.6% in FY2022 (21.6% in FY2021) and PAT margin of 13.49% (12.69% in FY2021). The capital structure remained comfortable, with a gearing at 0.53 times in FY2022 on a consolidated basis. The debt coverage indicators have shown sustained improvement, with an interest coverage of 9.59 times, Total debt/OPBDITA of 1.3 times, NCA/Total Debt of 56% and DSCR of 5.3 times in FY2022 compared to an interest coverage of 7.97 times, Total debt/OPBDITA of 1.5 times, NCA/Total Debt of 48% and DSCR of 3.3 times in FY2021.

Credit challenges

Near term demand pressure remains in key exports markets along with stiff competition – Carysil derives major part of its revenue from export sales, with the same contributing around 80% to the total revenue in FY2022 (at the standalone level). The company has an overall presence in 50 countries with the US being the company's biggest market, which contributes around 35% to total exports, followed by Europe (20%) and UK (10%). The company is exposed to the demand pressure in key export markets, as reflected by a decline in exports by ~21% in Q2FY2023 on a YoY basis at the consolidated level. The inventory levels also remained high as of September 2022 and are expected to reach the normal level by Q4FY2023. Carysil faces major competition in the European market where at present, the players are facing issues related to high energy costs, hence, Carysil is expected to benefit in near term in respect to manufacturing costs as its operations are based out of India. The company`s ability to grow in domestic market and to counter weakness in the export market in the near term remains critical for the credit profile in the current fiscal.

Working capital intensive business and negative free cash flows due to high capex – The company's financial risk profile is marked by high working capital intensity (NWC/OI at 32% as on March 31, 2022) owing to high inventory holding and a relatively longer receivable cycle. Consequently, the utilisation of the working capital limit stood high at around 87% during the 12-month period from November 2021 to October 2022. Free cash flows remained negative during the past fiscals because of high capital expenditure, given the gradual capacity addition undertaken in the past.

Vulnerability of profitability to fluctuation in raw material prices and foreign exchange – Carysil's profitability remains vulnerable to adverse movement in the price of key raw materials, i.e., resins hence, its ability to pass on the rise in input costs will be key sensitivity from the profitability perspective. After recording a growth in its operating margins in FY2021 supported by price hikes, it remained at a largely similar level in FY2022. The company's ability to manage vulnerability of forex fluctuations, given its large exports, will remain a key rating monitorable. There is competition in the export markets (exports constitute about 80% of the total revenue in past fiscals) from established multinational companies in the international kitchen sink industry, though it benefits in terms of better cost efficiency. Also, the company is placed favourably in the domestic granite sink market and the share from domestic revenue increased to 27% of total revenue in H1FY2023 from 19-20% in FY2022.

Ability to generate commensurate returns from ongoing and recently completed capex remains critical for credit perspective going forward – Carysil had planned capex of about Rs. 73 crore over FY2022 and FY2023 for increasing its manufacturing capacity to 12,00,000 units from 5,00,000 units. The company has enhanced the capacity to 8,40,000 units in FY2022 from 5,00,000 units and further to 10,00,000 units in H1FY2023. However, it has postponed the expansion to FY2024 for the additional 200,000 capacity of quartz sinks. The company is going ahead with expansion in kitchen appliances, where the domestic market remains relatively under penetrated. This expansion will take place in two phases i.e., 100,000 units in Q1FY2024 (primarily fast-moving models of chimney/hoods) and the balance 100,000 units (additional model of chimney/hood and other appliances) in Q3FY2024. The fund requirement will only be in the range of Rs.5-10 crore which will be funded through internal accruals only. Carysil's ability to successfully expand its presence in the in-built kitchen appliances segment and scale up operations would remain key for its credit metrics, going forward.

Environmental and Social Risks

Environmental considerations – The company primarily uses natural quartz and resins in its manufacturing process, which does not pollute the air and water. However, the major environmental impact of granite sink manufacturing is caused by carbon dioxide emissions. The company complies with the Gujarat Pollution Control norms and it has not received any show cause/legal notices from it. The company has also started using natural gas, PNG that has less carbon dioxide emissions. Also, it has installed solar panels at the factory for shifting to environment friendly fuels.

Social considerations – The company is providing a work environment which ensures that every employee is treated with respect. The Company has zero tolerance towards sexual harassment at the workplace and has adopted prevention of sexual harassment policy.

Liquidity position: Adequate

The liquidity position of Carysil is adequate as its cash accruals are expected to remain more than adequate to cover the debt repayments in the near-to- medium term. The company had an unencumbered cash balance (Rs. 10.4 crore as on March 31, 2022 and Rs.11.17 crore as on September 30, 2022 on a consolidated basis) and unutilised limits of ~Rs. 20 crore as of end September 2022.

Rating sensitivities

Positive factors – ICRA could upgrade Carysil Limited's ratings if the company is able to significantly scale up its operations, while sustaining its profitability or improving its working capital intensity and overall liquidity profile.

Negative factors – Negative pressure on Carysil Limited's rating could arise if there is a decline in the scale of operations along with a moderation in profitability, or if there is a further stretch in the working capital cycle or higher-than-expected debt-funded capex that materially impacts its debt coverage indicators and liquidity profile. Further, TD/OPBDITA above 2.0 times or ROCE below 15% on a sustained basis may lead to ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of Carysil, along with its subsidiary, Carysil Steel Limited (erstwhile Acrysil Steel Limited), Sternhagen Bath Private Limited, Acrysil GmbH, Germany, Carysil Online Limited (erstwhile Acrysil Appliances Limited), Carysil UK Limited (erstwhile Acrysil UK Limited), Acrysil Products Limited, UK (step-down subsidiary and Tickford Orange Limited, UK (step-down subsidiary).

About the company

Carysil Limited (Carysil) (formerly known as Acrysil Limited) was incorporated on January 19, 1987 by the first generation promoter Mr. Ashwin Parekh and is involved in manufacturing of granite-based kitchen sinks which is referred as "Composite Quartz Sink". The company's registered office is at Mumbai. The company's manufacturing plant is located at Bhavnagar, Gujarat and is ISO: 9000:2001 certified. The company was also listed in 200 Best Under A Billion Companies by Forbes Asia in August 2020.
CL has also entered into manufacturing of stainless-steel kitchen sinks to cater mainly to the domestic market, through its subsidiary, Carysil Steel Limited (CSL) wherein Carysil Limited holds a 84.99% stake. Apart from CSL, CL holds 100% stake in Acrysil Gmbh Germany and Carysil UK Limited. Carysil UK Limited has acquired 100% shares of Tickford Orange Limited (TOL), the United Kingdom (UK) along with its wholly-owned operating subsidiary Sylmar Technology Limited (STL) in April 2022. Acrysil Products Limited is a step-down subsidiary of CL through which the latter entered the UK market. On April 30, 2020, the company incorporated a wholly owned subsidiary called Acrysil USA INC for expansion and deeper penetration into the American market and increase the market share.

The company will be dealing in kitchen products, bath products and tiles. The company also trades in kitchen appliances like chimneys, cook-tops, wine-chillers etc. The product portfolio also includes bath segment products like wash basin, quartz tiles and bath fittings sold under the brand name of Sternhagen. All the products are sold in the domestic market under the brand name of Carysil.

Key financial indicators (audited)

Consolidated	FY2021	FY2022	H1FY2023
Operating income	309.7	483.9	310.5
PAT	39.3	65.3	28.2
OPBDIT/OI	21.6%	21.6%	18.08%
PAT/OI	12.7%	13.5%	9.1%
Total outside liabilities/Tangible net worth (times)	1.0	1.2	1.4
Total debt/OPBDIT (times)	1.5	1.3	1.7
Interest coverage (times)	8.0	9.6	8.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of October 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 29, 2022	Apr 11, 2022	Nov 19, 2021	Sep 09, 2020	Sep 10, 2019
1	Fund-based Cash Credit/Working Capital Limits	Long term	117.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)
2	Fund based Interchangeable Limit	Long term	(117.00) #	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	-
3	Fund-based Term Loan	Long term	45.40	45.40	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)
4	Non-Fund based Letter of Credit	Short Term	10.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
5	Non-Fund based Stand by Line of Credit	Short Term	(10.00) #	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	
6	Non-Fund based bank Guarantee	Short Term	(25.00) #	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	

#WCDL of Rs. 92.0 crore, Export Credit/BC/ULC/SLC/CC/BD/EPC/PCFC of Rs. 117.0 crore, FBD/FBN/FBP of Rs. 35.0 crore, Bank Guarantee of Rs. 25.0 crore and CC of Rs. 20.0 crore is sublimit of Cash Credit/Working capital limit.

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Cash Credit/Working Capital Limits	Simple
Fund based Interchangeable Limit	Simple
Fund-based Term Loan	Simple
Non-Fund based Letter of Credit	Very Simple
Non-Fund based Stand by Line of Credit	Very Simple
Non-Fund based bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Cash Credit/Working Capital Limits	NA	NA	NA	117.00	[ICRA]A (Stable)
NA	Fund based Interchangeable Limit	NA	NA	NA	(117.00) #	[ICRA]A (Stable)
NA	Fund-based Term Loan	FY2014	NA	FY2026	45.40	[ICRA]A (Stable)
NA	Non-Fund based Letter of Credit	NA	NA	NA	10.00	[ICRA]A2+
NA	Non-Fund based Stand by Line of Credit	NA	NA	NA	(10.00) #	[ICRA]A2+
NA	Non-Fund based bank Guarantee	NA	NA	NA	(25.00) #	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Carysil Steel Limited (Erstwhile Acrysil Steel Limited)	85.00%	Full Consolidation
Carysil Online Limited (Erstwhile Acrysil Appliances Limited)	100.00%	Full Consolidation
Stern Hagen Pvt. Limited	84.90%	Full Consolidation
Acrysil Gmbh, Germany	100.00%	Full Consolidation
Carysil UK Limited (Erstwhile Acrysil UK Limited)	100.00%	Full Consolidation
Acrysil USA INC	100.00%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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