March 26, 2024

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	117.00	117.00	[ICRA]A(Stable); Reaffirmed
Fund-based Interchangeable Limit	(117.00) #	(117.00) #	[ICRA]A(Stable); Reaffirmed
Fund-based Term Loan	45.40	66.40	[ICRA]A(Stable); Reaffirmed/Assigned for enhanced amount
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	**172.40**	**193.40**	

**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 reaffirmation of ratings continues to consider the healthy financial profile of Carysil Limited (Carysil, erstwhile Acrysil Limited), as reflected by healthy debt metrics, which is expected to continue on the back of the established position of the Carysil Group in the kitchen sink industry. Additionally, the entity's diversified product portfolio, reputed clientele, coupled with no near-term large debt-funded capex and adequate liquidity profile, provide comfort. The ratings reaffirmation continues to consider the extensive experience of the promoters of Carysil Limited (Carysil, erstwhile Acrysil Limited) and the increasing scale of operations marked by a year-on-year (YoY) growth of 23% (at consolidated level) in its operating income in FY2023 and healthy return indicators. For 9M FY2024, the entity reported top-line growth of 10% at the consolidated level. The growth in FY2023 and 9M FY2023 was also driven by inorganic acquisitions, supporting the top line. The ratings further factor in the comfortable capital structure and debt coverage metrics, as reflected by an interest coverage of 6.58 times, total debt/OPBDITA of 2.02 times and interest coverage of 6.37 and total debt/OPBDITA of 1.77 times in FY2023 and H1 FY2024, respectively, and an adequate liquidity position. The DCSR moderated marginally in the current fiscal due to debt taken for acquisitions made during the last two fiscals. However, the same is expected to improve over the medium term with scheduled debt repayments and no major debt-funded capex planned.

The ratings, however, are constrained by demand volatility in key export markets, coupled with competition from other established players, although it is favourably placed in terms of cost efficiency as the manufacturing operations are based in India. The company at the standalone level posted a dip in the top line for FY2023 and has reported only a marginal rise in 9M FY2024 on account of subdued demand conditions in its key export markets, which will remain a near-term challenge. This is attributed to the vagaries of the Red Sea crisis. Further, its operations are working capital-intensive due to the high inventory holding period and the relatively longer collection cycle. The company has recently undertaken capex for capacity enhancements in its sink as well as in kitchen appliances business. The company's ability to successfully scale up operations to generate commensurate returns from the same remains critical from the credit perspective.

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, along with sustained demand from exports. Geographic diversification through recent inorganic acquisitions, coupled with the absence of any major debt-funded capex, is also expected to support the top line and credit profile in the near to medium term.

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, kitchen countertop fabrication and the bath segment. It also trades in kitchen appliances and has plans to start manufacturing/assembling 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 23% to Rs. 593.8 crore in FY2023 from Rs. 483.9 crore in FY2022, largely driven by inorganic acquisitions. ICRA expects Carysil to continue with its growth trajectory on the back of inorganic acquisitions made in the current fiscal and growing demand in the domestic market. The operating margins moderated to 18.4% in FY2023 compared to 21.6% in FY2022, on account of the weaker cost structure of some subsidiaries, however, it is expected to range bound between 19-20% levels in the near to medium term as newer acquired subsidiaries mature. The capital structure remained comfortable, with a gearing at 0.72 times in FY2023 on a consolidated basis. Despite moderations in the debt coverage indicators, it remained healthy with an interest coverage of 6.6 times, total debt/OPBDITA of 2.0 times, NCA/total debt of 35% and DSCR of 3.4 times in FY2023 compared to an interest coverage of 9.6 times, total debt/OPBDITA of 1.3 times, NCA/total debt of 56% and DSCR of 5.3 times in FY2022.

Credit challenges

Volatile export demand with de-growth reported in topline in FY2023 at standalone level – At the standalone level, revenues contracted by 13% due to unfavourable export demand conditions stemming from inflationary pressures witnessed, especially in European markets and USA. The revenues were also impacted by high inventory stocking up during the Covid period. In 9M FY2024, at the standalone level, the company reported marginal growth given the ongoing Red Sea crisis and high inflationary conditions in its key export markets. Any meaningful and sustained recovery in exports will remain a key rating monitorable.

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 31% as on March 31, 2023) owing to high inventory holding and a relatively longer receivable cycle. Consequently, the utilisation of the working capital limit stood high at around 83% of the sanctioned limits during the 12-month period from March 2023 to February 2024. 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 movements 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. Supported by price hikes, the operating margins in FY2023 remained largely similar to FY2022. The company's ability to manage the 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.

Commensurate returns from ongoing and recently completed capex remain critical for credit perspective going forward – The company enhanced the capacity to 8,40,000 units in FY2022 from 5,00,000 units, and further to 10,00,000 units in FY2023. However, it has postponed the expansion of the additional 2,00,000 capacity of quartz sinks to FY2025. At present, it is expanding its capacity by 2,00,000 units in kitchen appliances, where the domestic market remains relatively underpenetrated. 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. The company has also started using piped natural gas (PNG) that has less carbon dioxide emissions. Also, it has installed solar panels at the factory to adopt environment friendly fuels.

Social considerations – The company's work environment ensures that every employee is treated with respect. It has zero tolerance towards sexual harassment at the workplace and has adopted a 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. 15.48 crore as on December 31, 2023, on a consolidated basis) and unutilised limits of ~Rs. 10 crore by the end of February 2024. Although the average utilisation of the working capital limit stood high at around 83% of the sanctioned limits during the 12 months from March 2023 to February 2024. As its scale grows, the company has been undertaking necessary periodical limit enhancements to support its liquidity requirements.

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 – 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 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 as per Annexure II

About the company

Carysil Limited (CL) (formerly known as Acrysil Limited) was incorporated on January 19, 1987, by the first-generation promoter Mr. Ashwin Parekh and is involved in the manufacturing of granite-based kitchen sinks, which are referred to as 'composite quartz sinks'. The company's registered office is situated in Mumbai. The manufacturing plant of the company is located at Bhavnagar, Gujarat, and is ISO: 9000:2001 certified. It was also listed among the 200 best-under-a-billion companies by Forbes Asia in August 2020.

CL has also ventured into manufacturing stainless-steel kitchen sinks to primarily cater for the domestic market through its subsidiary Carysil Steel Limited, wherein Carysil Limited holds a 84.99% stake, apart from ASL, CL holds a 100% stake in Carysil Gmbh Germany and Carysil UK limited. Carysil UK Limited acquired 100% shares of Tickford Orange Limited (TOL), United Kingdom (UK) along with its wholly owned operating subsidiary Sylmar Technology Limited (STL) in April 2022. Carysil Products Limited is a step-down subsidiary of CL through which CL has entered the UK market. On April 30, 2020, the company incorporated a wholly owned subsidiary, Acrysil USA INC, to expand and penetrate the market across America and increase the market share. Carysil's wholly owned subsidiary In April 2022, 'Carysil UK ltd.' acquired 70% of the equity share of The Tap Factory ltd. (TTFL) based in Yorkshire, UK. The acquired company's business is to design and source kitchen and bathroom products, especially modern hot water boiling taps. In February 2023, Carysil Limited incorporated Carysil FZ-LLC in Dubai, catering to the GCC market kitchen and bath product sales. GCC markets include countries such as Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain and Oman. In October 2023, Acrysil USA Inc. acquired the 100% membership interest in 'United Granite LLC' (UGL) in Virginia, USA. UGL manufactures kitchen tops for retail, residential and commercial projects in the United States.

Carysil Limited also trades in kitchen appliances such as chimneys, cook-tops, wine-chillers and others. The product portfolio also includes bath segment products such as wash basins, quartz tiles and bath fittings, sold under the brand name, Sternhagen. All the products are sold in the domestic market under the brand name, Carysil.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	483.90	593.89	305.27
PAT	65.26	52.83	27.27
OPBDIT/OI	21.63%	18.08%	19.33%
PAT/OI	13.49%	8.90%	8.93%
Total outside liabilities/Tangible net worth (times)	1.15	1.32	1.26
Total debt/OPBDIT (times)	1.31	2.06	1.77
Interest coverage (times)	9.59	7.39	6.37

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation *Unaudited results*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3" colspan="2">Instrument</th><th colspan="3">Current rating (FY2024)</th><th colspan="5">Chronology of rating history for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount rated (Rs. crore)</th><th rowspan="2">Amount outstanding as of December 2023 (Rs. crore)</th><th>Date & rating in FY2024</th><th colspan="2">Date & rating in FY2023</th><th>Date & rating in FY2022</th><th>Date & rating in FY2021</th></tr>
<tr><th>Mar 26, 2024</th><th>Dec 29, 2022</th><th>Apr 11, 2022</th><th>Nov 19, 2021</th><th>Sep 09, 2020</th></tr>
<tr><td>1</td><td>Fund-based Cash Credit/Working Capital Limits</td><td>Long term</td><td>117.00</td><td>-</td><td>[ICRA]A (Stable)</td><td>[ICRA]A (Stable)</td><td>[ICRA]A (Stable)</td><td>[ICRA]A (Stable)</td><td>[ICRA]A- (Stable)</td></tr>
<tr><td>2</td><td>Fund based Interchangeable Limit</td><td>Long term</td><td>(117.00) #</td><td>-</td><td>[ICRA]A (Stable)</td><td>[ICRA]A (Stable)</td><td>[ICRA]A (Stable)</td><td>[ICRA]A (Stable)</td><td>[ICRA]A- (Stable)</td></tr>
<tr><td>3</td><td>Fund-based Term Loan</td><td>Long term</td><td>66.40</td><td>28.91</td><td>[ICRA]A (Stable)</td><td>[ICRA]A (Stable)</td><td>[ICRA]A (Stable)</td><td>[ICRA]A (Stable)</td><td>[ICRA]A- (Stable)</td></tr>
<tr><td>4</td><td>Non-Fund based Letter of Credit</td><td>Short Term</td><td>10.00</td><td>-</td><td>[ICRA]A2+</td><td>[ICRA]A2+</td><td>[ICRA]A2+</td><td>[ICRA]A2+</td><td>[ICRA]A2+</td></tr>
<tr><td>5</td><td>Non-Fund based Stand by Line of Credit</td><td>Short Term</td><td>(10.00) #</td><td>-</td><td>[ICRA]A2+</td><td>[ICRA]A2+</td><td>[ICRA]A2+</td><td>[ICRA]A2+</td><td>[ICRA]A2+</td></tr>
<tr><td>6</td><td>Non-Fund based bank Guarantee</td><td>Short Term</td><td>(25.00) #</td><td>-</td><td>[ICRA]A2+</td><td>[ICRA]A2+</td><td>[ICRA]A2+</td><td>[ICRA]A2+</td><td>-</td></tr>
</table>

#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	66.40	[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; #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.

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
Carysil Gmbh, Germany (Erstwhile Acrysil Gmbh, Germany)	100.00%	Full Consolidation
Carysil UK Limited (Erstwhile Acrysil UK Limited)	100.00%	Full Consolidation
Carysil Ceramictech Limited (Erstwhile Acrysil Ceramictech Limited)	100.00%	Full Consolidation
Acrysil USA INC	100.00%	Full Consolidation

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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.

For more information, visit www.icra.in

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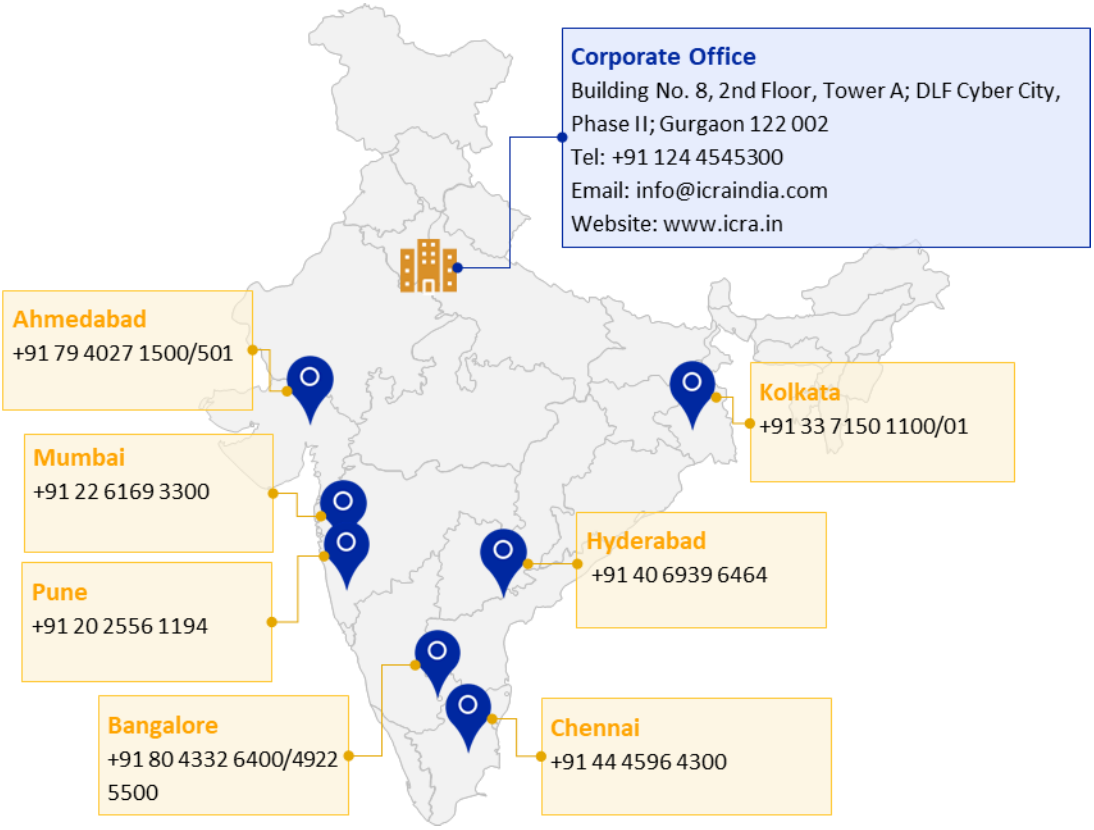

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