

The Trick Is To Spot Them At The Larval Stage



Acrysil Limited No Sinking, Only Rising Returns!

Our Tiny Treasure for the month of February is Acrysil Limited. It is the fourth largest global supplier as well as the sole manufacturer of Quartz kitchen sinks with Schock Technology (a German tech) in India & Asia. It operates through three segments namely, kitchen sink (89 per cent of revenue), kitchen appliances (9 per cent) & bath segment (2 per cent). The company's domestic top-line is 26 per cent while its export top-line is 74 per cent.

Quartz sinks (74 per cent of top-line)

Capacity expansion of Quartz sinks : In August 2020, the company had planned a capacity expansion for manufacturing Quartz sinks by 1,00,000 units. The work for this expansion has been completed and it will commence production for the same in February 2021. With this, the capacity will increase from 5,00,000 units per annum (p.a.) to 6,00,000 units p.a. Also, recently, the company announced that it will be further expanding the production capacity of Quartz Kitchen sinks by another 1,00,000 units at its Bhavnagar plant in Gujarat. The proposed Capex of Rs 30 crore will increase the manufacturing capability of Quartz kitchen sink to 7,00,000 units per annum. The expansion project is likely to be commissioned by June 2021. The Capex will be financed by a mix of internal accruals and debt.

Tie-ups with GROHE & IKEA : Acrysil tied-up as a contract manufacturer of Quartz sink with GROHE (Germany) in 2019. This tie-up has the potential to generate additional revenue of approximately Rs 60 crore in the next three years. GROHE has a global presence in more than 130 countries and is a dominant player in bathroom solutions and kitchen fittings. Also, in FY21, Acrysil entered into a strategic partnership with IKEA for the supply of Quartz sink. IKEA has expertise in the distribution and supply of home improvement products. Acrysil will be supplying to retail stores in the EU, Russian, and Eastern markets. The company has added the necessary capacity to meet IKEA's demand.

Exports of Quartz sinks : Europe is the biggest market for kitchen sinks, followed by North America. The other major

market for Indian Quartz sinks is the EU region with Germany, UK, France, Sweden and Italy being the top markets. In the export market, approximately 75-80 per cent of Acrysil's revenue is generated through contract manufacturing while the rest comes through its in-house brand 'Carysil'. Europe accounts for 30 per cent of international sales, of which, Germany has been one of the major contributors led by a tie-up with GROHE in 2019. Faster growth is expected in Germany over the upcoming years. The UK contributes 20 per cent of the international revenue and the company has a subsidiary named 'Acrysil UK Ltd, which caters to the UK market only. In the US, Acrysil started its business around 7-8 years ago and generates approximately 30 per cent of the export revenue. It has incorporated a wholly-owned subsidiary named, Acrysil USA INC on April 30, 2020 to deal in kitchen, bathroom & tile products. This subsidiary will help Acrysil to penetrate deeper into the markets of US and increase its market share. In FY20, it forayed into many new markets, including Chile, Cyprus, Tanzania, Oman, and Qatar.

Demand drivers for kitchen sinks & appliances :

Despite the lockdown imposed at the global level due to the COVID-19 pandemic, the company witnessed an increase of 30-40 per cent of the total orders catalysed by online sales. The pandemic has kept people confined to their homes, leading to a rise in the requirement for home improvement products. With more construction projects, increased access to clean water, and improved sanitation facilities in developing economies, the demand for kitchen sinks are expected to rise. The growing commercial sector, which includes hotels and restaurants, will lead to the demand for luxurious kitchen sinks on a global scale. Large kitchen appliances are attracting traction with products like hobs, chimneys, microwaves. With the government's emphasis on infrastructure and affordable housing segments, the demand for kitchen sinks & appliances is expected to rise in the upcoming years.

Stainless steel sinks (16 per cent of top-line)

Acrysil sells two types of stainless-steel sinks, which includes Quadro sink & press line. The company doubled the capacity of Quadro sinks from 12,000 units to 24,000 units by the end of

BSE Code	: 524091
Time Duration	: 1 year
CMP	: ₹303.05 (as on 25 February, 2021)
Target Price	: ₹397

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FY18 due to the rising demand while the current capacity stands at 30,000 units. This is a high-growth segment for the company. For the press line product, the company is planning to start a second shift for the stainless-steel sink plant leading to additional production to cater to the demand.

Kitchen appliances & bath segment

Acrysil mainly deals in built-in appliances such as kitchen hood, cooktops, the oven, microwave, dishwashers, built-in refrigerator, and wine chillers. Chimneys comprise approximately 60-70 per cent of its appliances business. It has also started in-house manufacturing of a few chimney models. Also, products sold in the bath products category are through the brand 'Sternhagen', which was launched via its wholly-owned subsidiary, 'Acrysil GmbH'. Acrysil has signed an agreement with Farah Ali Khan, a well-known jewellery designer & Indian gemologist for its Sternhagen brand.

Financial performance

Acrysil's consolidated revenue for the quarter Q3FY21 came in at Rs 87.47 crore as against Rs 73.17 crore in the corresponding quarter last year, registering a 19.5 per cent YoY increase. EBITDA for the quarter grew by 63.8 per cent YoY to Rs 20.18 crore as against Rs 12.32 crore in the corresponding quarter

last year, with a corresponding margin expansion of 623 bps. EBITDA margin for the quarter stood at 23.1 per cent. PAT for the quarter came in at Rs 12.17 crore as against Rs 6.84 crore in the corresponding quarter last year, with a YoY increase of 77.9 per cent. Its revenue and net profit have grown at CAGR of 15 per cent and 42 per cent, respectively over the last three years. The company has consistently paid dividends to its shareholders over the years. The capital structure remains comfortable, with a debt-to-equity ratio of 0.50 times as on September 30, 2020.

Valuation

The company is trading at TTM P/E of 28.4x with TTM EPS of Rs 11.23. In FY20, it delivered ROE and ROCE of 15.7 per cent and 16.4 per cent, respectively. The capacity expansion of Quartz sinks will lead to additional production to cater to the rising demand in the international market. This will boost the top line over the upcoming years. The company's partnership with GROHE & IKEA would expand its reach to more new markets and consumers. Its exports are consistently increasing as Quartz sinks have more demand in international markets of Europe & US. Its stainless-steel sink product is also gaining traction in the domestic market, which is beneficial for the company, being a high growth segment. Considering its strong and consistent financial performance as well as reasonable valuation, we see a potential upside of 31 per cent with a target price of Rs 397 for a period of one year.

Inc/Exp Statement (Consolidated)

Description	202003	201903	201803	201703	201603
Net Sales	276.23	251.60	196.47	180.99	173.83
Total Income	280.96	253.73	201.08	183.53	175.62
Total Expenditure	228.62	209.21	169.47	154.04	143.31
PBIDT	52.34	44.52	31.61	29.48	32.31
PAT	22.86	17.48	12.24	7.97	12.15
Dividend %	60.00	60.00	50.00	50.00	50.00
Adj. EPS(Rs)	8.27	6.65	4.61	2.80	4.21

Quarter On Quarter (Consolidated)

Particulars	202012	202009	Q on Q Var %	201912	Y on Y Var %
Net Sales	87.48	75.63	15.66	73.17	19.55
Total Expenditure	67.27	60.17	11.8	60.89	10.49
PBIDT (Excl OI)	20.21	15.46	30.71	12.29	64.42
PAT	12.18	9.46	28.67	6.84	77.89
PBIDTM% (Excl OI)	23.1	20.44	13.01	16.79	37.58
PBIDTM%	23.5	22.87	2.75	19.19	22.46
PATM%	13.92	12.51	11.27	9.35	48.88
Adj. EPS(Rs)	4.53	3.52	28.69	2.55	77.65

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Stock vs. Index



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