



Presents To You A

RESEARCH REPORT ON

ACRYSIL
LIMITED

COMPANY NAME

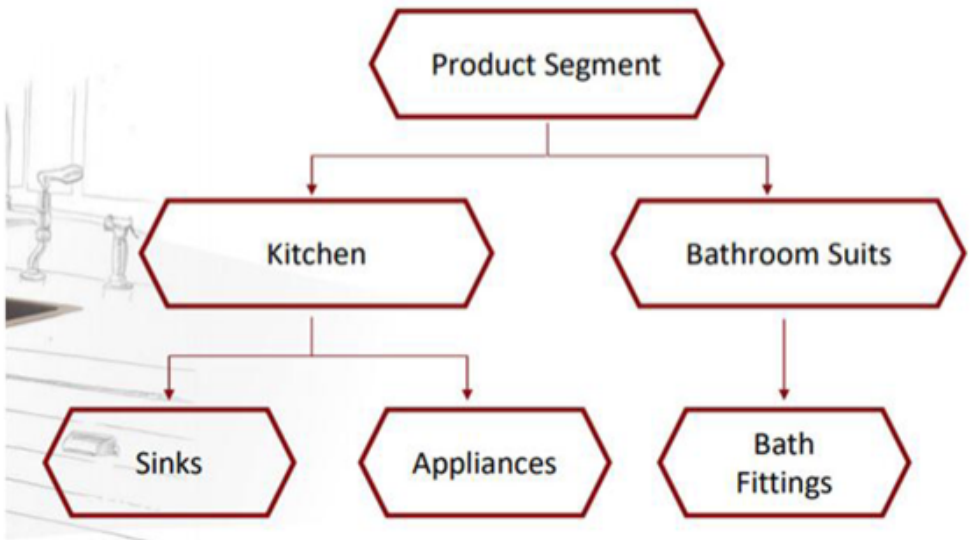
Analysed By: Alok Daiya's Trading Desk

PROFILE

Acrysil Limited (Acrysil), is one of the world leaders in manufacturing and marketing of composite quartz kitchen sinks engineered with German technology.

Over the years, Acrysil has diversified into stainless steel kitchen sinks, faucets, food waste disposers and built-in kitchen appliances such as chimneys, cook-tops, wine chillers, etc. Acrysil is rapidly moving ahead towards becoming a complete player in Kitchen and Bath segments while establishing brands such as 'Carysil' and 'Sternhagen'. Sternhagen is a popular German luxury brand, wholly owned via the company's subsidiary, Acrysil GmbH. The range of products in this portfolio includes premium bathware fittings, sanitaryware, and highlighter tiles.

BUSINESS PRODUCTS OVERVIEW

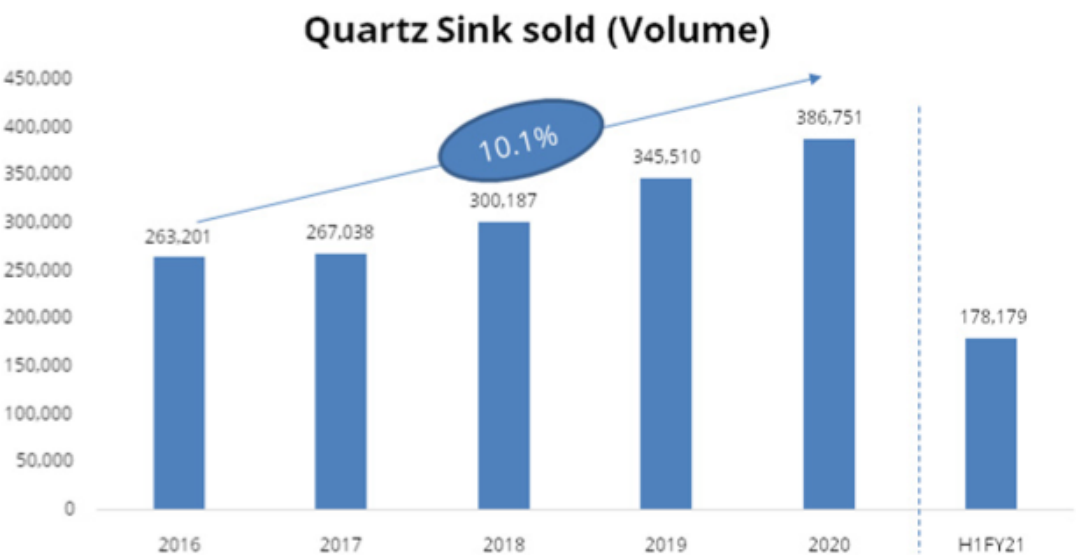


Quartz Sinks

Acrysil is the only company in Asia and among a few companies worldwide that manufactures quartz kitchen sinks with global standards of quality, durability and visual appeal. There has been an increase in demand for quartz sinks which are now preferred over their stainless-steel counterparts due to their high durability. This trend has been observed in America, Germany, UK and France. This trend is also expected to be witnessed in other parts of the world. Currently, stainless steel sinks hold 90-95% of the market with quartz sinks making up only 5-10%. This provides significant growth opportunity for Acrysil as it has developed more than 120+ models to cater to various segments and markets.

BUSINESS PRODUCTS OVERVIEW

The company has also increased its manufacturing capacity from 5 lakh units p.a to 6 lakh units p.a to meet the growing export and domestic demand. Acrysil's quartz sinks are available in more than 1,500 outlets in India and are trusted by builders and various modular kitchen studios for their premium quality. Quartz sinks remain a major contributor to the company's revenue with a share of 73% and 78% in FY20 and H1FY21 respectively. We expect this segment to grow at 9.2% CAGR from FY20-23E.



BUSINESS PRODUCTS OVERVIEW

Stainless steel kitchen sinks

In this segment, the company continuously innovates its products to enrich the lives of numerous households and offer an unmatched lifestyle with its premium kitchen sinks. Last year, the company introduced a new range of innovative products like square sinks and micro radius sinks. The manufacturing capacity of steel sinks stands at 90,000 sinks p.a. out of which Press sink capacity stands at 60,000 sinks p.a and quadro sink capacity at 30,000 sinks p.a. Target Market for Quadro (Designer) Sinks caters to high end segment that are willing to pay a premium for superior quality, design and finish. The stainless-steel kitchen sinks contribute 16% in FY20 & 13% H1FY21 respectively to the top line of the company. We expect this segment to grow at 9.7% CAGR from FY20-23E.

Kitchen appliances & Bathroom fittings

Acrysil is well-placed to become a major player in the overall kitchen industry. The company has a variety of products including dishwashers, ovens, hoods, etc. The company is continuously working on innovation, research and development, and designs to attract customers and stand out in the market.

BUSINESS PRODUCTS OVERVIEW

The company plans to increase its global footprint in the kitchen appliances segment. The company's wholly owned subsidiary, Acrysil GmbH, offers the Sternhagen brand range of quartz wash basins, premium bathware fittings, sanitaryware, and highlighter tiles. Sternhagen washbasins are made from Sani-Q and designed by EMAMIDESIGN. The Sternhagen bathroom suites are designed to elevate the bathroom experience by combining style with technology. These products have received a good response from consumers. The company currently has more than 60 showrooms and SIS for displaying its high-quality products. The Kitchen appliances & Bathroom Fittings contribute 11% in FY20 & 8% H1FY21 respectively to the top line of the company. We expect this segment to grow at 12.9% CAGR from FY20-23E.

INVESTMENT RATIONALE

Sole manufacturer of quartz sinks in Asia

Globally, quartz sink manufacturers are limited to only four players, namely, Blanco, Franke, Acrysil, and Schöck. The company is the sole manufacturer in India and Asia with global standard of quality, durability and visual appeal. The technology and know-how acts as a strong moat for the company and remains an entry barrier for other players to participate in the growing demand for quartz sinks in the domestic as well as in international markets. The company is well poised to leverage its position in the global quartz sink market and meet the growing demand in various countries around the globe.

Strategic partnerships

In November 2018, the company entered into an agreement with German brand, GROHE for the supply of quartz kitchen sinks. GROHE has a global presence in more than 130 countries and is a dominant player in Bathroom Solutions and Kitchen Fittings. The supply agreement with Acrysil will mark GROHE's foray into the quartz kitchen sinks segment. GROHE has been part of the Japanese LIXIL Group Corporation since 2014.

INVESTMENT RATIONALE

As per the management commentary, the agreement has the potential to bring in additional revenues to the tune of Rs. 50-60 crores over the next three years. Further, in August 2020, the company entered into a strategic partnership with IKEA Supply AG (Switzerland) for manufacturing and supply of composite quartz kitchen sinks globally. This partnership will be a game-changer for the company as IKEA has 400+ stores in 52 countries. This will accelerate growth for the company by leveraging its strong product offerings to a wider geography. The management is hopeful of more such tie-ups in the future as it looks to expand its international presence in the core business of quartz sinks.

Premium product portfolio in building materials space

Acrysil prides itself in being the custodian of renowned brands – Carysil, TekCarysil and Sternhagen. Presently, 90-95% of sinks industry is dominated by stainless-steel sinks and approximately 5-10% uses quartz sinks. With improvement in lifestyles manifesting in luxury apartments, there is a strong possibility of growing demand for quartz sinks.

INVESTMENT RATIONALE

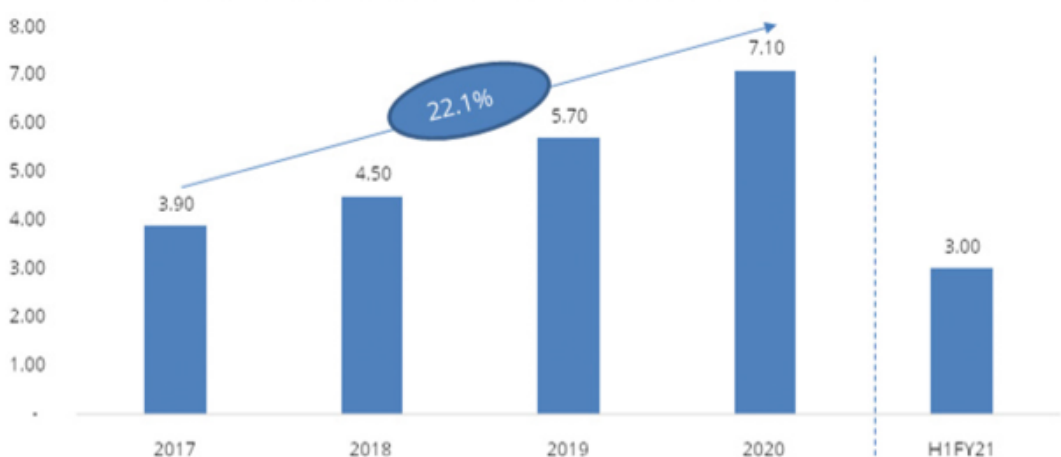
However, stainless steel sinks are still a dominant market and hence, Acrysil has extended its product range to include stainless steel sinks as well. Acrysil envisages to be a premium category player in stainless steel sinks, kitchen appliances, bathroom fittings, etc. The company manufactures two kinds of steel sinks - press sinks and quadro sinks - which are designer sinks catering to the high-end segment. During the previous year, the company introduced quartz antibacterial sinks and stainless-steel integrated worktops. It has set up Special Purpose Machines (SPM) to ensure seamless installation of stainless-steel countertops which will boost the market in India and overseas. Further, the newly commissioned Physical Vapour Deposition (PVD) plant provides a metallic finish to stainless steel kitchen sinks enhancing the styling of these sinks. In the bathroom suites segment, the company offers quartz wash basins and 3D tiles under the brand Sternhagen. The company has launched a range of products from Sternhagen luxury brand for bathroom interiors, for both domestic as well as international markets. Apart from these, Acrysil offers kitchen appliances like chimneys, hobs, microwave ovens, cook tops, wine chillers, barbeque grillers etc. These products are mainly traded goods sold under the brand name 'Carysil' except for certain models of chimneys that the company manufactures.

INVESTMENT RATIONALE

Strong distribution network

The company has a market presence in 55 countries across the world. It has a foothold in major countries such as Germany, the United States, the United Kingdom, South Africa, and Australia. The company strives to spread its wings to 70 countries in the next three years by exploring uncatered geographies. The company is present in the UK market through Acrysil Products Ltd (formerly known as Homestyle Products Ltd). In Acrysil Products Ltd, Acrysil owns 100% through Wholly owned subsidiary Acrysil UK Limited. The company sells products like quartz sinks, steel sinks, taps and accessories, and other traded products

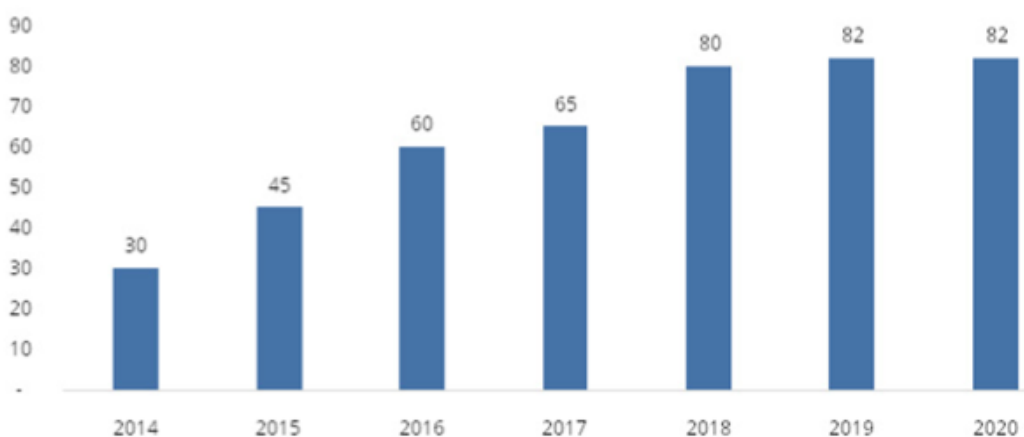
Revenue of Acrysil UK (in Million Pounds)



INVESTMENT RATIONALE

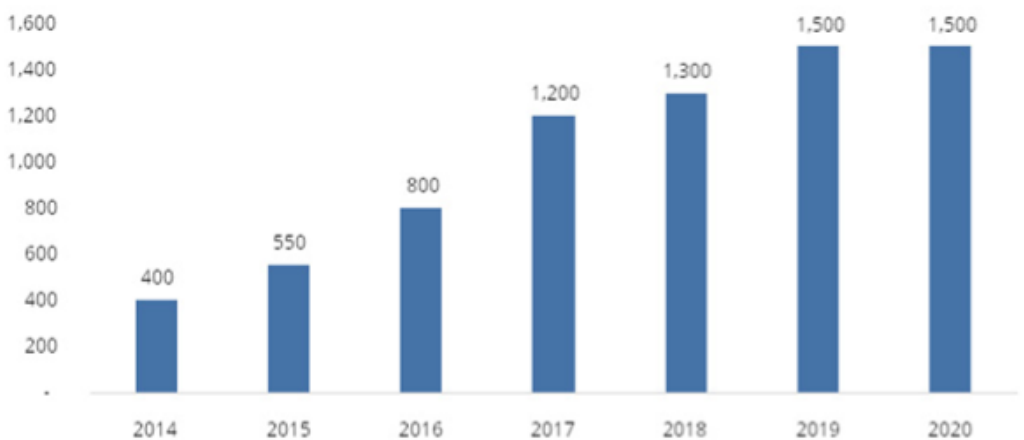
To increase penetration in USA, the company has incorporated a wholly-owned subsidiary, Acrysil USA Inc. to deal in kitchen, bathroom, and tile products. It would look to leverage its existing customers, develop new customers, and extend market penetration in the USA. Until FY 2012, the company was largely focused on exports. However, the management saw huge potential in the domestic market and introduced premium products under the brand 'CARYSIL'. In order to strengthen its brands in the domestic market, the company increased its dealer network from 400 to 1,500 and distributor network from 30 to 82 from FY 2013 to FY 2020. It also has ~80 franchise galleries. Further, it plans to add ~100 new galleries and ~34 distributors

Distributor Network



INVESTMENT RATIONALE

Dealer Network

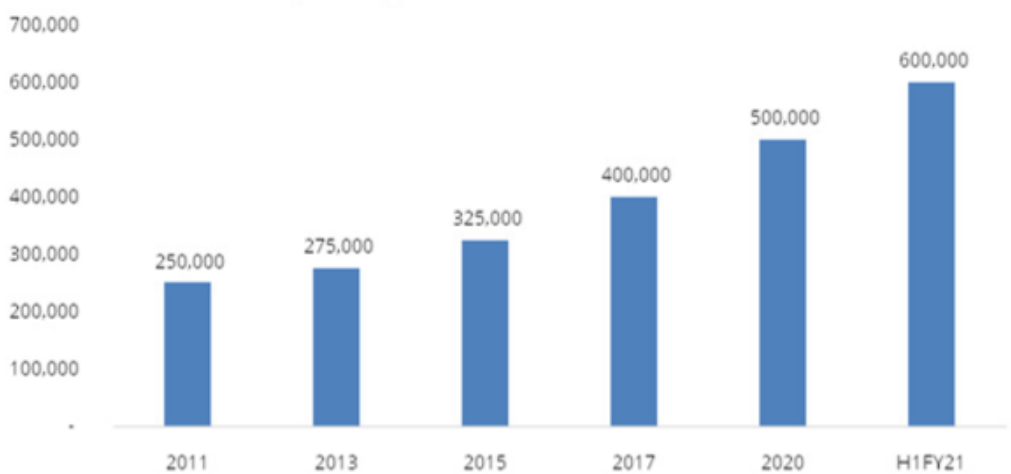


Capacity expansion

Over the years, the company has expanded the capacity of quartz sinks to meet the growing demand of consumers and to benefit from economies of scale. As a result, in March 2020, the company's capacity stood at 5 lakh sinks p.a. Further, in order to meet incremental demand from the export and domestic markets, the company has invested ~Rs. 15 crores from internal accruals to expand its quartz sinks manufacturing capacity by 20% (1 lakh units p.a.) to 6 lakh units p.a. by March 2021. The company also has enough land bank to scale capacity from 6 lakh units p.a to 8-9 lakh units p.a.

INVESTMENT RATIONALE

Capacity of Quartz Sinks P.A



Strong brand image

The company has been continuously investing in brand promotion on TV and in print, along with exposure through sponsorship of events like Times Food and MasterChef Australia. To strengthen the “STERNHAGEN” Brand, Acrysil has signed an agreement with Farah Ali Khan a well-known jewellery designer and Indian Gemmologist.

INVESTMENT RATIONALE

Business dynamic improving

Acrysil's business has not been impacted much by Covid-19 as work-from-home has led to increased demand for home improvement products like sinks, chimneys, etc. Further, there is an interesting transition in customer behaviour towards e-commerce sales leading to a surge in online sales. In this backdrop, Acrysil is targeting to make 'Carysil' a prominent brand by increasing its presence in major markets like the US, UK, and Europe as it forms the majority of the company's export sales.

FINANCIALS

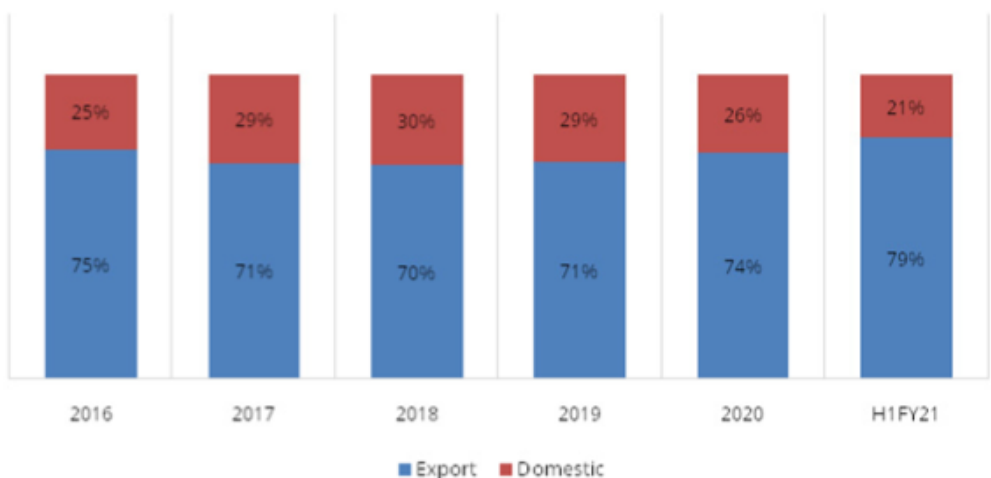
Revenue analysis

We expect revenue to grow at 9.7% CAGR from FY20-23E due to strategic partnerships, premium product portfolio and capacity expansion to meet the growing demand in export and domestic markets.

We expect quartz sink volumes to grow at 10% CAGR from FY20-23E led by housing growth in US and Europe market and market shift towards quartz sink from stainless steel sink.

Revenue by geography

Revenue By Geography

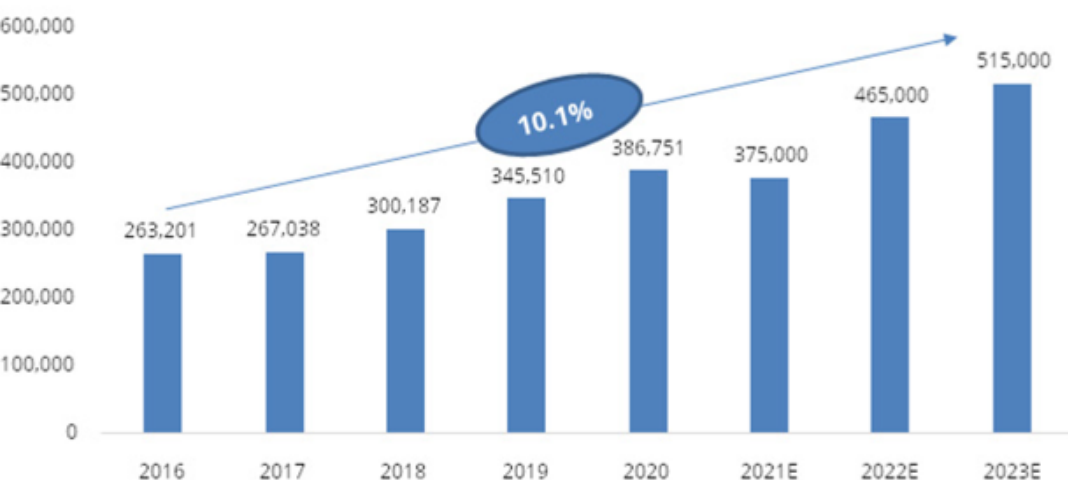


FINANCIALS

Quartz Volume Sink

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Quartz Sink Volume Sold

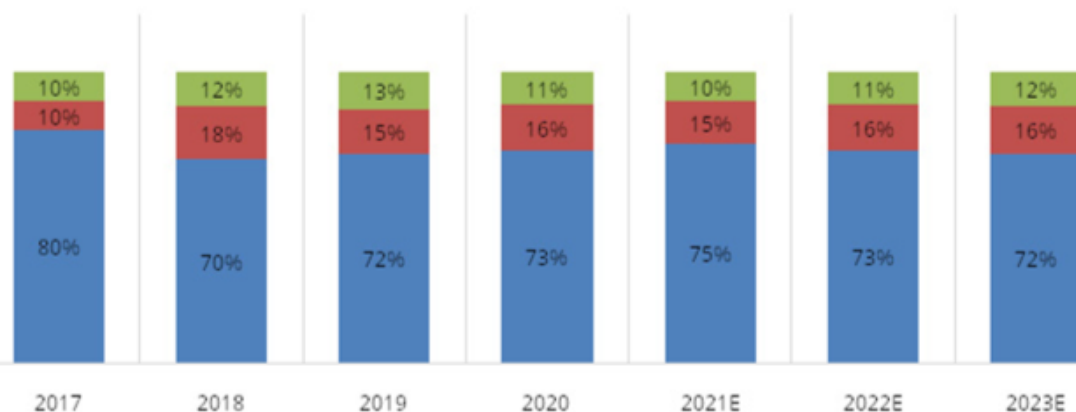


FINANCIALS

Product wise Revenue

Product Wise Revenue

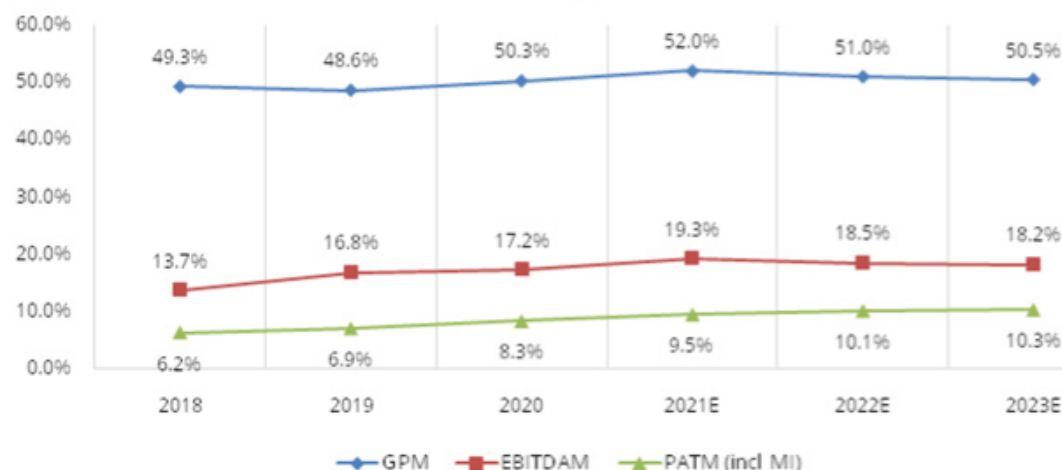
■ Quartz ■ Steel sinks ■ Appliances & Others



Margins

We expect EBITDA margins to increase from 17.2% in FY20 to 19.3% in FY21E driven by strong improvement in gross margins due to stable raw material prices and cost efficiency measures. We expect EBITDA margins to stabilise from FY22 and be in the range of 18.5%-18%.

Margins



INDUSTRY

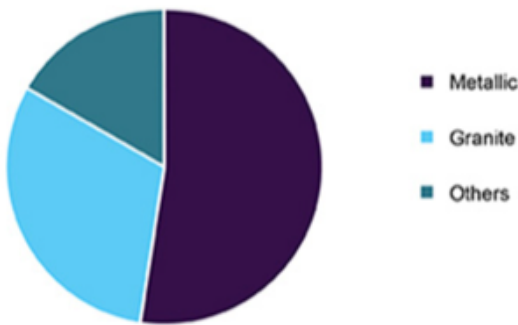
Kitchen sinks

A sink is the basic requirement in any kitchen, whether it is the home kitchen or in the restaurant. Region-wise, the global sink market has been segmented into Europe, North America, Asia Pacific, Middle East and Africa, and South America. Majority of the population in Europe and North America prefer advanced and modern kitchens in their homes thereby creating a demand for elegant-looking kitchen products. Further, the pandemic and rising concerns over health have forced majority of world population to cook food at home. This, in turn, has increased demand for a well-equipped kitchen. As per the UN, the world needs to build more than two billion new homes over the next 80 years. Such huge growth in terms of household infrastructure will ultimately increase the need for water sinks during the construction phase, thereby boosting the growth of this market.

On the basis of material, the kitchen sinks market is further segmented into metallic, granite, and others. The metallic sink is the most preferred material type and it accounted for 52.4% share of the overall revenue in 2018. Due to the scratching property of stainless steel, granite sinks are gaining popularity among consumers. They are the most luxurious and attractive option available in the market. Consumers prefer this if they are looking for some elegant look for their kitchens. Granite sinks are available in various types including 100% marble, 100% granite, granite composite (85% quartz granite 15% resin), and cultured marble (marble dust, stone, and resin).

INDUSTRY

Global kitchen sinks market share, by material, 2018 (%)



The global kitchen sink market is expected to be valued at USD 3.06 billion by 2025 with a CAGR of 3.8%. North America dominated the kitchen sinks market with a share of 42.2% in 2019. This is attributable to rising number of households and consumer preference to have an elegant look for their kitchens, which attracts the installations of various innovative sinks in the houses. Europe is the second-largest regional market owing to the growing consumer preference for advanced and modern kitchens in the houses. The majority of the population in Europe prefer to have an elegant look for their kitchens, which attracts the installations of various innovative sinks in the houses and hence increase the demand for sinks in the region. Key factors that are driving the market growth include surge in the number of households in various countries, increasing hotels and restaurants across the globe, and rising consumer expenditures on home care and decor. The growing trend of renovation of old conventional kitchen with modern equipment and facilities is fuelling the growth in this market. Other factors such as growth in number of construction projects, increased access to clean water and improved sanitisation in developing economies, better standard of living, online shopping, and growing Internet of Things (IoT), among others will help to boost the demand for kitchen sinks and appliances.

INDUSTRY

Ruvati USA, Kohler, Blanco, Franke, Schock, Zuhne, Frigidaire, Swanstone, Acrysil, AGA, Duravit, Dombrecht Kitchen, Roca are some of the major market players in the industry. The market presents moderate to high entry barriers due to the presence of leading market players and the requirement of high advertising costs. The market is further driven by the design and automation of products, mergers and acquisitions, and joint ventures.

Kitchen appliances

The kitchen solutions industry is witnessing a shift from local carpenters and interior designers towards modular kitchen solutions as this option is considered to be smart and sustainable. A shift is also seen in the industry with a large number of real estate companies in metros and Tier I cities offering modular kitchens as standard amenities in recent times. Innovation and adoption of technology has supported the progress of the global kitchen appliances industry. With change in lifestyle and increasing disposable income, consumers are becoming increasingly design centric, which has created the demand for new and premium designs along with preference for premium kitchen appliances. The segment is expected to grow at a CAGR of 8.6% between 2019-2025 on the back of growing urbanisation, rise in number of nuclear families, innovation, increased penetration of online distribution channels in tier II+ cities, demand for large kitchen appliances (hobs, chimneys, microwaves, etc.), among others. The growth prospects of the Indian economy remain positive due to its favourable demographics, increase in savings, integration with the global economy, etc.

RISKS & CONCERN

Slowdown in real estate

The slowdown in the real estate market can impact Acrysil as it is primarily a building materials provider.

Adverse movement in raw material price

Acrysil's profitability remains vulnerable to adverse movement in the price of key raw materials i.e., resins because of its inability to pass on any increase in prices for ongoing orders.

Currency fluctuation

Fluctuation in forex exchange value will impact the profitability of the company as it caters to the export market.

OUTLOOK & VALUATION

We expect Revenue / Earnings to grow at CAGR of 9.7 %/18.6% respectively from FY20 to FY23E on the account of partnerships with IKEA and GROHE. These partnerships have the potential to be a game changer for the company as it is well positioned to capture a larger pie of the home improvement market. Additionally, Acrysil's strong brand image, wide distribution network, expanded capacity in quartz sinks and stainless-steel sinks, and revamped product portfolio in the bathroom segment through its brand Sternhagen have the potential to result in strong growth for the company.



NEXT GENERATION CALL

29TH DECEMBER 2020



ACRYSIL

CMP 184.5 TGT 315 DURATION 1.5-2 YRS



ALOK DAIYA'S TRADING DESK



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