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**UNEXPLORED MULTIBAGGER SMALL CAP STOCKS**

**EQUITY RESEARCH REPORT**

<b>ACRYSIL (INDIA) LTD.</b>	BSE CODE: 524091
Industry: Plastic Products	CMP: Rs. 113.95 (25/11/2012)
Market Cap: 50.79 (INR in Millions)	Target Price: Rs. 230.00
Date: November 25, 2012	Time Period: 18 – 24 months



**Saral Gyan Capital Services**

**[www.saralgyan.in](http://www.saralgyan.in)**

**An Independent Equity Research Firm**

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## 1. Company Background

Acrysil Ltd is a leading manufacturer and exporter of Composite Quartz and Granite Kitchen Sinks from India. Acrysil Limited was founded in 1987 as a joint venture with Schock & Co. GmbH (Germany), the inventors and world leaders in composite quartz technology, as well as in thermoplastic extruded profiles. The company began in a small way with production of about 2800 sinks annually, along with thermoplastic co-extruded profiles for the domestic auto industry.



The company markets its sinks under the Brand **CARYSIL**. They are also an OEM (Original Equipment Manufacturer) for major brands worldwide. Besides Quartz and Granite sinks which constitute more than 90% sales of the company, the company also sells Food waste disposers, faucets and stainless steel sinks under its own brand.

In the highly competitive market of lifestyle products and home fittings, Carysil stands literally in a class of its own. It is India's only indigenous brand of kitchen sinks made of quartz bonded with resin, homogeneously moulded by a unique CNC-controlled polymerization process. That results in a product that is scratch-resistant, dent-proof, stain-resistant and heat-proof, with a glossy and truly lasting granite finish in several varieties. It has truly international looks and styling, and is available in a range of attractive colours. It is highly functional, easy to clean, and safe in contact with food. Best of all, it remains as good as new even after years of use.

With domestic response being somewhat slow to take off, Acrysil began its focus on exports of quartz sinks in 1993. Sales jumped threefold, from Rs 359.19 lakhs in 1993 to Rs 1,036.68 lakhs in 1999. So encouraging was this response that in 1999, the company sold off its extrusion operation, choosing to focus all its efforts on the more promising quartz sinks division. 2001-02, the year that Acrysil first looked at India as a potential growth market for quartz sinks, ready for the introduction of carefully chosen models.

In just a decade, domestic sales multiplied from Rs 1.83 crores in 2001-02 to Rs 12.4 crores in 2011-12. The brand is available in more than 2000 outlets, and is a preferred choice of builders and Modular Kitchen Studios.

Carysil's world-class quality is demonstrated in its export performance. Today, Carysil sinks are shipped to 30 countries, including U.S.A., France, U.K., Greece, many European markets, Far-East and Gulf Countries. In fact, at Rs 47 crores of Sales in FY 2011-12, exports today account for 80% of the company's turnover. As a truly international product, Carysil also carries ISO9000-14000 certification.

Acrysil has also entered into strategic partnerships with large players in the US, UK, Russia and France, while also establishing enduring relationships with the world's largest retail chain companies, such as BnQ (UK), Europe and U.S.A. Acrysil enjoys strong brand positioning and has a frequent presence in the world's largest exhibitions and expos in Europe, USA and Far Eastern countries.

It doesn't stop at polymerized quartz. Carysil has sinks for a variety of customer needs, price ranges and market segments. The customer has elegant options in stainless steel, and also a choice of stainless steel faucets. There's even a range of motorized disposal units for pulverizing and liquidizing kitchen waste.

### **The Hindu – Saturday, Apr 19, 2008 – The No Stain Sink**



There is something unique about the sinks manufactured by Acrysil. About 75-80% of the material used in making it is Quartz mineral, cast by a means of special computer controlled polymerization casting process.

Their unique product in terms of quality and design makes them different from other sinks available in the market as they are completely scratch free (Quartz being one of the hardest material) and offer great quality looks.

### **Scratch proof: Quartz kitchen sinks on display at the Kitchen Show**

Have you seen a round modular kitchen? If you think that is unique, consider the other product of Acrysil Limited, 'Carysil Quartz Kitchen Sink' made of silica quartz, the second hardest stone after diamond. Kitchen sinks in various sizes, colours and shapes are available in the stone.

Costing between Rs. 5,000 and 15, 000, the sinks are produced in 10 colours at the company's Gujarat plant. "We are one amongst the four companies in the world manufacturing quartz sinks in technical collaboration with Shock & Co., of West Germany," says Kiran, Marketing Manager, Acrysil Limited.

Quartz is a natural stone but as it is available as granules, the production of sinks has to undergo a long procedure. The granules are crushed into a powder form, mixed with acrylic and then cast into the required shapes. The use of acrylic is for making the end-product non-porous and to get the malleability for the right shape. As quartz by nature has a natural sheen, the product itself has a demure glimmer throughout



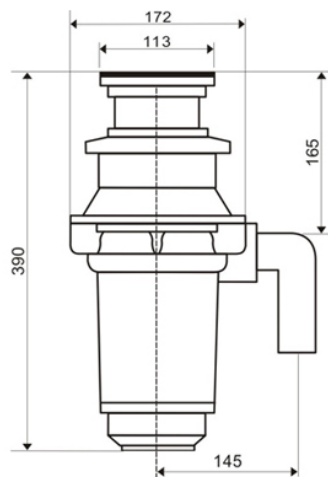
## Product Range

### Granite Sinks:



### Stainless Steel Sinks:



**Faucets:****Food Waste Disposer:**

Current (A) 3.45  
Power (w) 560

**Food Waste Disposer 560-3/4 HP :****Product Characteristics :**

- P. M. Motor
- Stainless steel grinding-room
- Overload Protector
- Washer Connector
- Large Capacity grinding-room
- Aluminium Alloy quick connector
- High strength plastic structure
- Standard : IEC60335-2-16:2002

**Technical Parameter :**

Type	FWD-560
Voltage (V)	AC 220
Frequency (Hz)	50-60
Current (A)	3.45
Rotation Speed(r/min)	2600
Power (w)	560

## Why CARYSIL Granite Kitchen Sinks?



## System Certifications



## Product Certifications



## 2. Recent Development

### **Addition of new Institutional Customers & Entry into new Geographies**

Company has added some of the major institutional customers in the US and Germany, many of them are the result of acquisition of Acrysil GmbH as a subsidiary last year. These new buyers themselves have extensive networks for distribution and marketing, so there is considerable potential there. At the same time, Acrysil has made an entry into some entirely new geographies, most importantly Columbia, Hungary, Iran and Israel.

### **New Products offering for Global Clientele**

Company has customized several new models – that is, new styling and designs – for the tastes of clientele in Europe, Russia, USA and the Far East. This represents a substantial investment and management is confident to get multifold sales through exports. Company has plans to show new range of products in many overseas trade fairs and exhibitions. Moreover, stainless steel sinks are finding excellent acceptance in Singapore as well as European markets, so much so that management of the company is now focusing on new technologies for even better quality and lower cost in their manufacture.

### **Targeting no. 1 position in Premium Kitchen Segment in India**

Company is also giving a serious push in the domestic arena. Company management has set an objective to be No. 1 in the premium kitchen segment in not more than five years. Accordingly, company is expanding its product portfolio with a complete package of new products that includes various Appliances, Chimneys, Cooking Hobs and Ovens, slated to be launched in October-November 2012.

### **Optimizing Process to Improve Operating Margins**

Company has taken corrective measures to improve existing systems and processes especially in R&D, HR skill acquisition, standards compliance and other quality drivers. Company is constantly upgrading its technologies with an eye on better productivity, more reliable high quality and economical operation as margins are under more pressure now compared to earlier years.

### **Rewarded Share holders by Issuing Bonus Share**

Company management has recently rewarded its share holders by issuing bonus share in the proportion of 1 (one) Equity Share for every 2 (two) Equity Shares held by the Shareholders on 28<sup>th</sup> Sept'12.



### 3. Financial Performance

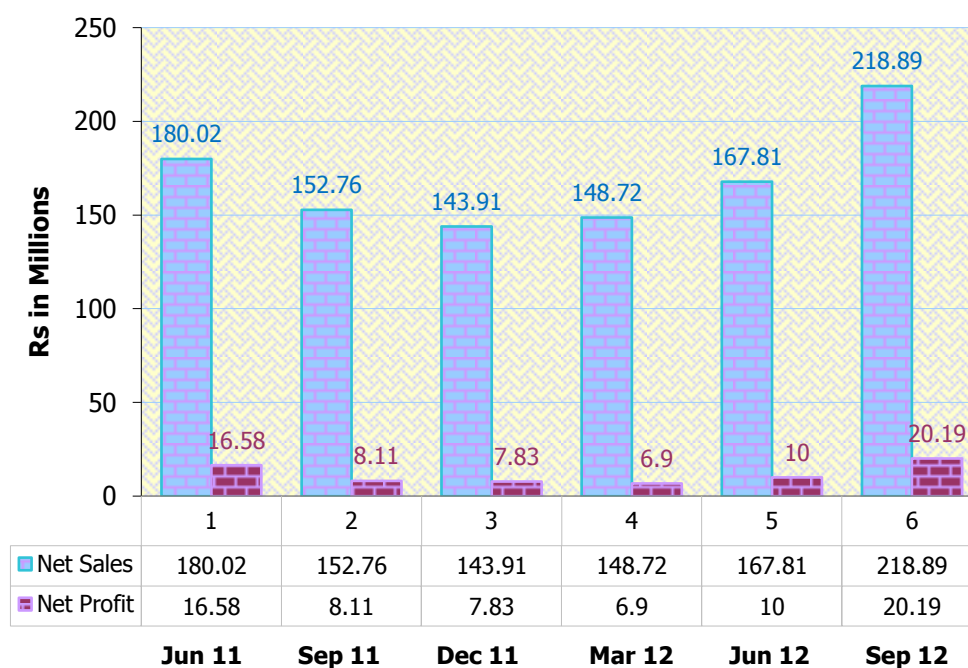
#### Acrysil net profit rises 149.38% in the September 2012 quarter

Net profit of Acrysil rose 149.38% to Rs 20.2 million in the quarter ended September 2012 as against Rs 8.1 million during the previous quarter ended September 2011. Sales rose 43.26% to Rs 21.89 crore in the quarter ended September 2012 as against Rs 15.28 crore during the previous quarter ended September 2011

#### Acrysil net profit declines 39.76% in the June 2012 quarter

Net profit of Acrysil declined 39.76% to Rs 10 million in the quarter ended June 2012 as against Rs 16.6 million during the previous quarter ended June 2011. Sales declined 6.77% to Rs 167.8 million in the quarter ended June 2012 as against Rs 180 million during the previous quarter ended June 2011

**Last 6 Quarters Net Sales & Profit**



## Current & Expected Earnings

### Quarterly Ended Profit & Loss Account

Particulars (Rs in Millions)	Dec 2011	Mar 2012	Jun 2012	Sep 2012	Dec 2012 E	Mar 2012 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
<b>Net Sales</b>	<b>143.91</b>	<b>148.72</b>	<b>167.81</b>	<b>218.89</b>	<b>225.78</b>	<b>253.65</b>
Total Expenditure	121.66	126.35	143.85	180.55	183.52	206.31
PBIDT (Excl OI)	22.25	22.37	23.96	38.34	42.26	47.34
Other Income	1.53	1.91	1.66	1.96	1.99	2.24
Operating Profit	23.78	24.28	25.62	40.3	44.25	49.58
Interest	5.18	6.45	5.76	5.73	5.71	5.77
Exceptional Items	0	0	0	0	0	0
PBDT	18.6	17.83	19.86	34.57	38.54	43.81
Depreciation	8.42	8.64	8.36	9.07	9.45	9.85
Profit Before Tax	10.18	9.19	11.5	25.5	29.09	33.96
Tax	2.35	2.29	1.5	5.31	6.11	7.13
Provisions & contingencies	0	0	0	0	0	0
Profit After Tax	7.83	6.9	10	20.19	22.98	26.83
Extraordinary Items	0	0	0	0	0	0
Prior Period Expenses	0	0	0	0	0	0
Other Adjustments	0	0	0	0	0	0
<b>Net Profit</b>	<b>7.83</b>	<b>6.9</b>	<b>10</b>	<b>20.19</b>	<b>22.98</b>	<b>26.83</b>
Equity Capital	29.72	29.72	29.72	29.72	44.58	44.58
Face Value (IN RS)	10	10	10	10	10	10
Reserves						
<b>Calculated EPS</b>	<b>2.63</b>	<b>2.32</b>	<b>3.36</b>	<b>6.79</b>	<b>5.15</b>	<b>6.02</b>
Calculated EPS (Annualised)	10.54	9.29	13.46	27.17	20.62	24.07
No of Public Share Holdings	1588668	1588668	1588668	1588668	NA	NA
% of Public Share Holding	53.45	53.45	53.45	53.45	NA	NA

### Expected Earnings for 3<sup>rd</sup> and 4<sup>th</sup> Qtr FY 2012-13:

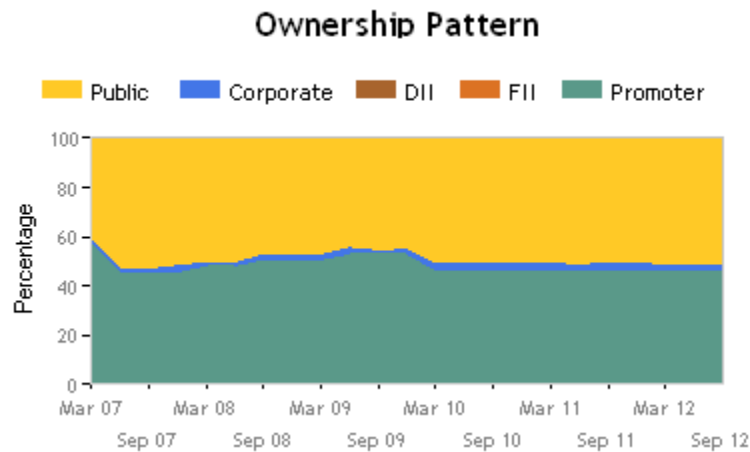
Acrysil Ltd has posted excellent growth in 2<sup>nd</sup> quarter of FY 2012-13. In last 5 years, Acrysil sales have been doubled but net profits have declined due to increase in raw material prices which impacted operating and profit margins of the company.

We believe that company operating margins will improve with increase in net profit considering launch of new products, entry into new geographies for exports and focusing on domestic sales with growing demand of premium quality products for luxury homes in India.

## 4. Charts & Graphs

### i) Share holding Pattern:

Promoters share holding is 46.55% without any major change in their stake since last 3 years. FII exposure is nil where as DII exposure is negligible at 0.01%.



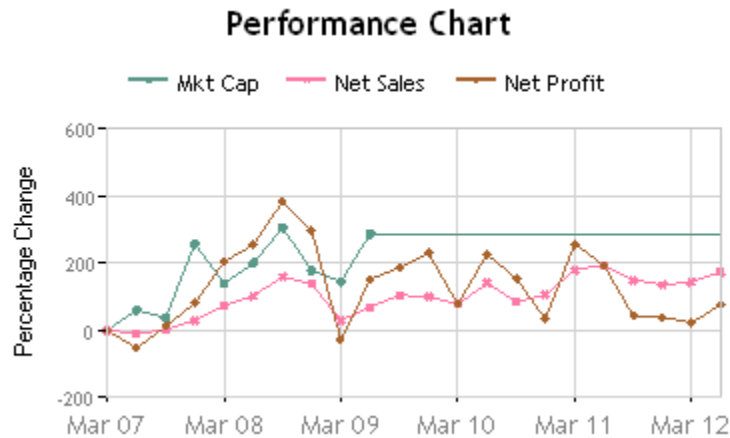
### ii) Share Price Moving Average:

Acrysil Ltd is currently trading above its 50 and 200 day price moving average. Stock has strong support in range of Rs 80-90 levels.



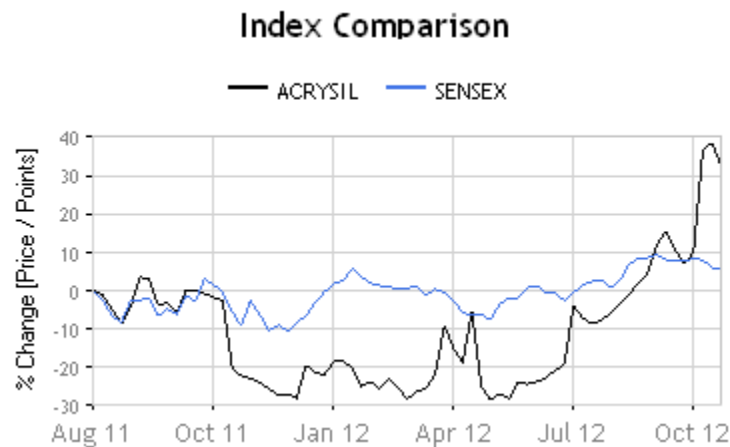
### iii) Performance Chart:

Company has shown growth in net sales but net profit got impacted in last couple of years due to high raw material prices and limited pricing power of products.



### iv) Comparative Graph:

Acrysil Ltd has given positive returns of 69.22% compared to Sensex returns of 17.91% in last one year.



## 5. Peer Group Comparison

Saral Gyan team has not carried peer group comparison for Acrysil Ltd as there is no direct competitor of Acrysil in India. Acrysil is the only company in all of Asia - and one of just four companies worldwide - manufacturing composite quartz sinks. They are the India's largest sink manufacturer in the non-steel category.

## 6. Key Concerns / Risks

- The company derives 80% of its revenue from export sales and is thus susceptible to global economy slowdown. The export sales of the company did decline in FY 10 and is thus one of the most important factor to watch out for in case of Acrysil.
- In the current inflationary environment, the cost of raw materials and operating expenses have increased while the company may not be able to pass on the price increase to it's customers. The same may hurt the margins of the company.
- Though there's still no major competition for Acrysil, however the other way to look around is that probably the larger players do not see the scale of opportunity.



## 7. Future Outlook

### **Rising Incomes to Fuel Demand for Branded / Premium Quality Lifestyle Products**

The Indian consumer market, which is primarily dominated by young generation, is becoming increasingly sophisticated and brand conscious. A typical upper middle class young consumer is beginning to look beyond the utility aspect of a product to seek intangibles like brand and lifestyle statement associated with the product.

According to a McKinsey study, there are 1.2 million affluent households, expected to reach 2.5 million households by 2015.

Accordingly, India is fast becoming a large market even for luxury goods and services, based on:

- Ten-fold rise in India's middle class: from 50 million to 580 million; with comfortable living standards
- The upper middle class expected to swell from 25 million people to over 130 million by 2025, and
- 24 million upper crest Indians (income > Rs 1mn per year, or \$ 117,000 PPP) with global lifestyles.

India is rapidly changing from a deprived and aspirer's economy to seekers country and with that, people's preference for lifestyle products is growing. The young generation of consumers is driving the demand for lifestyle products.

The Indian affluent class has shown lot of attraction towards premium branded goods and this fetish will continue. A recent luxury brands survey conducted by The Nielsen Company (a global information and media research company), has ranked India third after Greece and Hong Kong in the list of most brand conscious countries in the world.

### **Modularization of Kitchens – Market with Huge Growth Potential**

According to Industry experts, the modular kitchens segment stands at around 1500Cr. In India the readymade kitchens are currently sold at the rate of 10,000 units per month.

The increasing number of nuclear families, rising disposable incomes, affordability, and easy budget, will drive awareness levels and demand for modular kitchen, which is already growing at the rate of 45-50% per annum.

Modular kitchen accounts for 40% of the furniture and fittings industry and the products in this market are largely focused towards establishments in urban India. Modular kitchen segment in India is expected to grow 8-10 times in the next three to five years.

## 8. Saral Gyan Recommendation

- ✚ Sales turnover of the company has doubled in last 5 years, where as net profits have declined in last 4 years due to high raw material prices and slowdown in US and Europe. Company has made an entry into some entirely new geographies like Columbia, Hungary, Iran and Israel. Company has also customized several new models in terms of new styling and design for their existing clientele in Europe, Russia, USA and the Far East to drive growth.
- ✚ Management is now looking aggressive to grab domestic market share for its premium quality products. Company is also increasing its product portfolio to offer complete package of new products to their clientele. Currently, company generates 80% of revenue from exports and now aims to increase their domestic sales from existing 20% to 30% in next couple of years.
- ✚ Domestic sales of the company have increased from 1.1 crores in 2001-02 to 12.4 crores in 2011-12. In fact, in FY 2011-12, domestic sales of the company have grown by nearly 43%. Company is also opening galleries to show case their products in metro cities like Mumbai, Delhi and Ahmedabad to boost sales in domestic markets.
- ✚ As per our estimates, Acrysil can deliver bottom line of 80 million for full financial year 2012 – 13, annualized EPS of Rs. 21.3 with forward P/E ratio of 5.4 X for FY 2012-13, which makes stock an attractive bet at CMP.
- ✚ Management has rewarded share holders by paying consistent dividends since 2006. Dividend yield at current market price is above 3. Recently, company also issued bonus share to share holders at the ratio of 1:2.
- ✚ On equity of Rs. 44.58 million, the estimated annualized EPS for FY 12-13 works out to Rs. 21.3 and the Book Value per share is Rs. 73. At current market price of Rs. 113.95, stock price to book value is 1.56, which makes stock valuations reasonable with a long term view of 18-24 months.

**Considering reasonable valuations and opportunities in domestic markets of using premium quality products for luxury homes, we find Acrysil Ltd an attractive pick. Saral Gyan Team recommends **"BUY"** on **Acrysil Ltd.** for a target of Rs. 230 over a period of 18-24 months.**

### Buying Strategy:

- 50% at current market price of Rs. 113.95
- 50% at price range of Rs. 95 - 100

## 9. Disclaimer

**Important Notice:** Saral Gyan Capital Services is an Independent Equity Research Company.

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