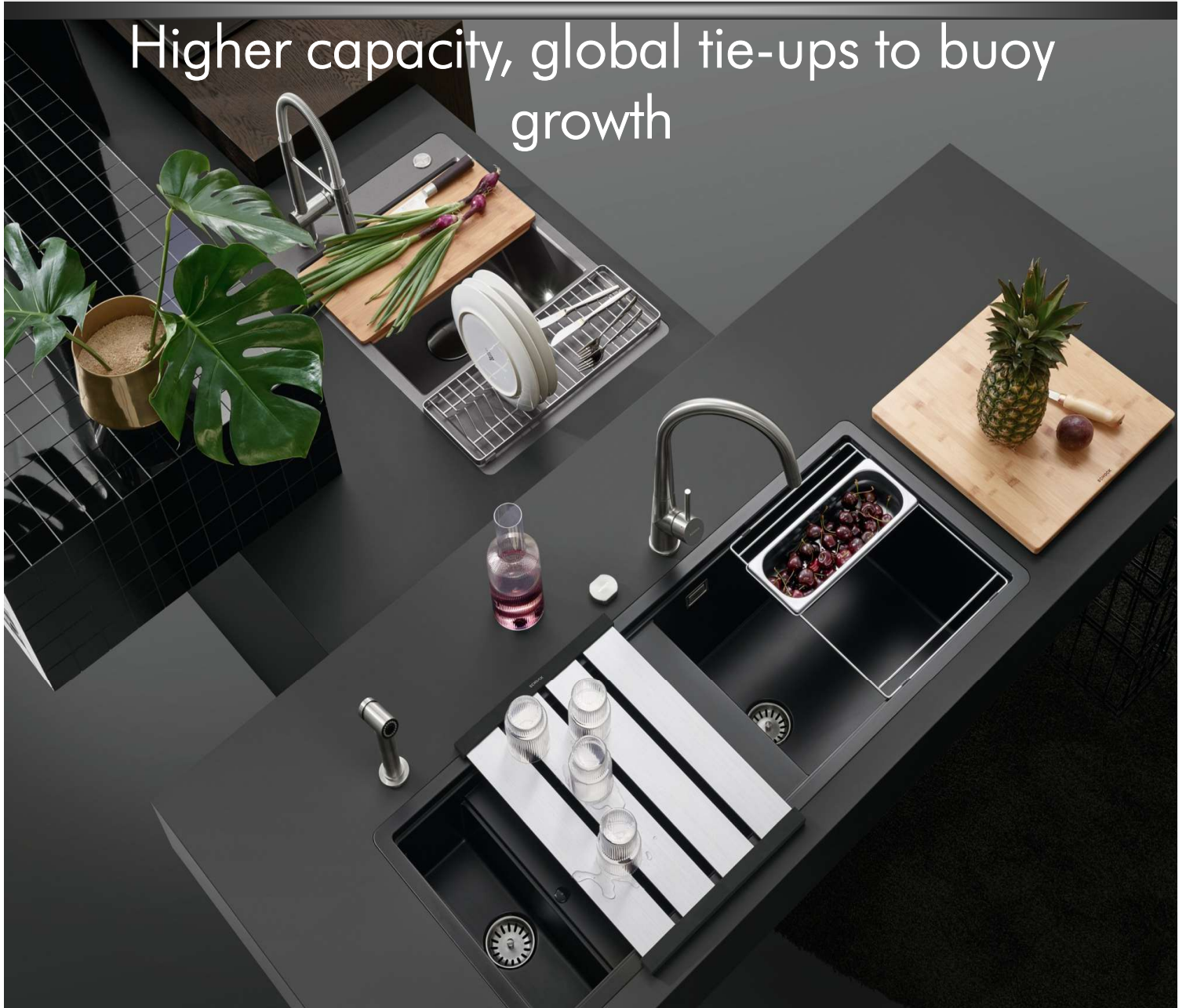


ACRY Ltd.

Initiating Coverage

Higher capacity, global tie-ups to buoy growth



March 30, 2022



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Acrysil Ltd

Higher capacity, global tie-ups to buoy growth; initiate with LONG

CMP Rs 857	Target Price Rs 1,013 Mar 2023
Rating LONG	Upside 18% (↑)

- Acrysil (ACRY) is Asia's only and amongst the four global companies with German technology used for manufacturing quartz kitchen sinks. Its annual sink capacity is set to increase from 0.84mn currently to 1.2mn post the ongoing capacity expansion. Company also has presence in Steel sinks and Kitchen appliance segments. The company's exports: domestic revenue mix stood at 79%:21% during FY21.
- ACRY has grown steadily and at FY21-end, posted a 10/5//3-year sales CAGR of 19%/12%/16%, EBITDA CAGR of 20%/17%/37% and PAT CAGR of 23%/29%/49%.
- We build in a revenue/EBITDA/PAT CAGR of 23%/21%/22% over FY22E-FY25E led by capacity addition, improved utilization in quartz sinks, and better penetration in existing and new markets. We believe ACRY has a big opportunity for additional tie-ups with global big-box retailers for their outsourcing needs. Initiate coverage with LONG and a Mar'23 TP of Rs 1,013 at 26x P/E set at one-year fwd. EPS of Rs 39.

Among the leading suppliers in a growing Quartz sink mkt.: In CY21, 80% of the global sink market was made up of steel sinks, 10-12% (vs. 7-8% pre-pandemic) of Quartz sinks (using German technology + others) while the rest was ceramic/glass/fireclay/metal sinks & others. Globally, quartz sink manufacturing using this technology is available to only four players: Blanco, Franke, Schock, and ACRY. Currently ~60-65% of the ~6mn global Quartz sink manufacturing capacity is controlled by Blanco and Franke, 25% by Schock and the remaining by ACRY. The technology is difficult to adopt as it cannot be replicated for large-scale mass production; the knowhow acts as a strong moat for these companies and remains an entry barrier, including for Chinese players. Schock also must get some clearances from users before granting technology to a new player.

Aggressive expansion to help tap incremental export opportunities: Over the last decade, company's quartz sink manufacturing capacity has expanded from 0.25mn units p.a. in FY11 to 0.6mn units p.a. by FY21. However, the company is now on an aggressive expansion spree, with capacity set to touch 1.2mn units p.a. by 1HFY23 (reached 0.84mn units p.a. by 9MFY22). Mgmt.'s rationale behind this expansion is to tap incremental opportunities arising from the pandemic-related global home construction/renovation trend and a shift in preference for quartz sinks from traditional steel sinks.

Expect strong growth over FY22-FY25E: Over FY22-FY25E, we expect revenue/EBITDA/PAT CAGR of 23%/21%/22% led by aggressive capacity addition, rising preference for Quartz kitchen sinks, improved offtake from existing/additional tie-ups with global big box retailers, and gradual penetration in the domestic market.

Initiate with LONG: At CMP of Rs 857, ACRY is trading at a FY23E/FY24E P/E of 28x/22x. We expect a strong operational performance over FY22-FY25E led by sector tailwinds in Quartz sinks incl. exports and focus on deeper domestic penetration. **Risks:** Demand in key export markets fizzling out, FX fluctuations (given large contribution of exports to sales), increased competitive intensity in Quartz sink exports and key-man risk.

Financial Summary

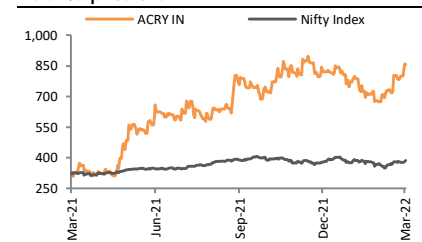
YE Mar Rs mn	Sales	EBITDA	Recurring PAT	EPS (Rs)	P/E (x)	P/B (x)	EV/ EBITDA (x)	ROE (%)	Core ROIC (%)	EBITDA Margin (%)
FY21A	3,097	658	393	14.7	58.1	11.9	36.0	22.5	14.4	21.2
FY22E	4,862	1,057	669	25.1	34.2	9.0	22.6	30.1	20.3	21.7
FY23E	6,418	1,348	815	30.5	28.1	7.0	17.6	28.1	21.0	21.0
FY24E	7,830	1,644	1,040	39.0	22.0	5.4	14.3	27.9	22.7	21.0

Source: Company, Equirus Securities

Stock Information	
Market Cap (Rs Mn)	22,879
52 Wk H/L (Rs)	935/308
Avg Daily Volume (1yr)	1,12,569
Avg Daily Value (Rs Mn)	1.2
Equity Cap (Rs Mn)	1,914
Face Value (Rs)	2
Share Outstanding (Mn)	26.7
Bloomberg Code	ACRY IN
Ind Benchmark	BSETCD

Ownership (%)	Recent	3M	12M
Promoters	44.0	0.0	0.0
DII	6.2	0.0	(1.1)
FII	0.4	0.0	0.4
Public	49.4	0.0	0.5

Relative price chart



Source: Bloomberg

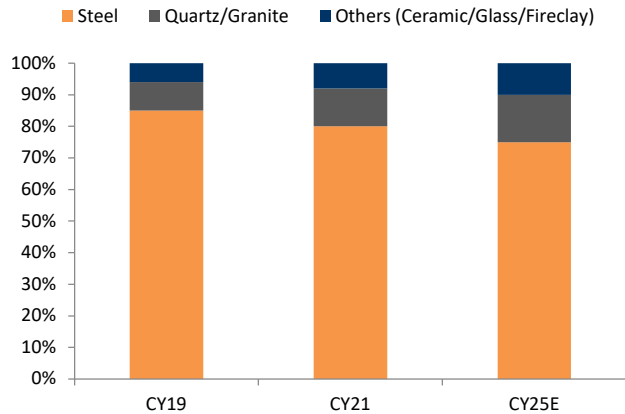
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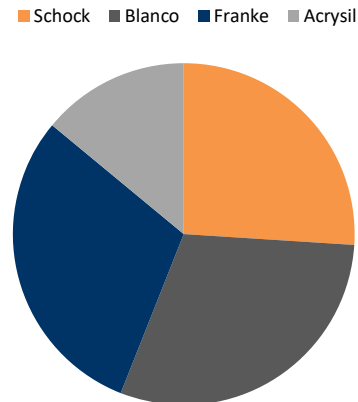
Key Charts

Exhibit 1: Though Steel sink will continue dominating global kitchen sink mkt., Quartz sinks are expected to see fastest growth



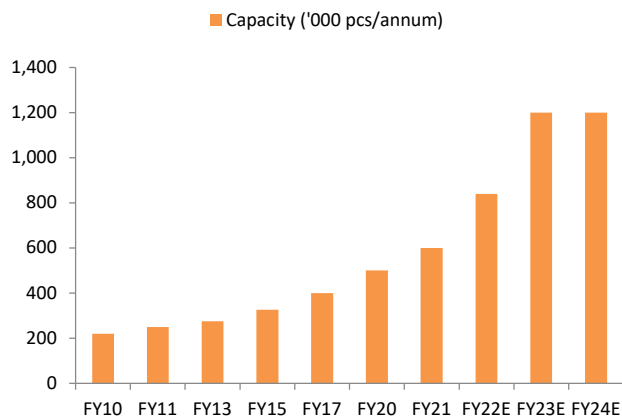
Source: Industry, Equirus Securities

Exhibit 2: Blanco & Franke remain the largest players in 'German technology' made Quartz sink mkt.



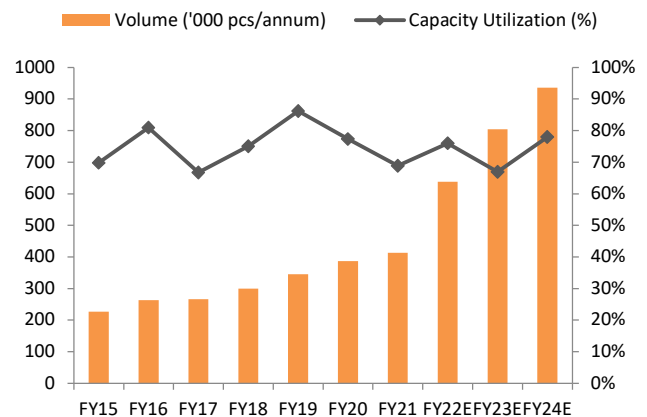
Source: Industry, Equirus Securities

Exhibit 3: Company is doubling its Quartz sink capacity by FY24E in order to grab the incremental growth opportunity globally



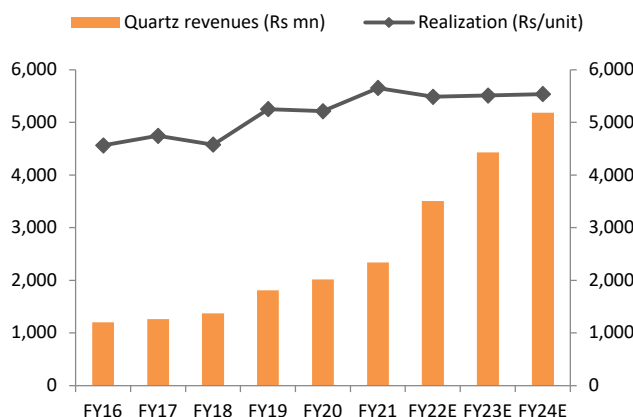
Source: Company, Equirus Securities

Exhibit 4: Utilization to improve on back of incremental export opportunities and increased domestic penetration



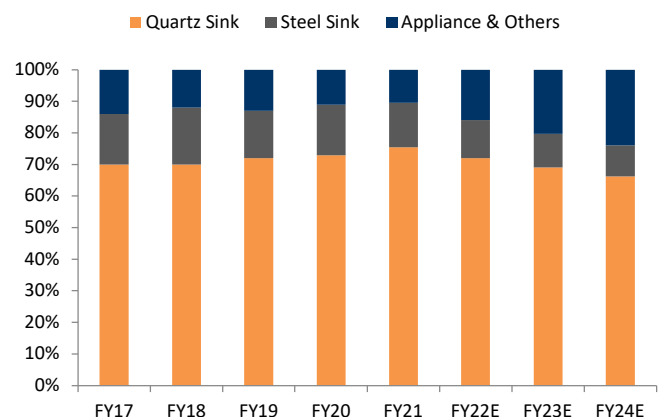
Source: Company, Equirus Securities

Exhibit 5: Expect Quartz volume/revenue CAGR of 31%/30% over FY21-24E due to capacity addition & possible future tie-ups



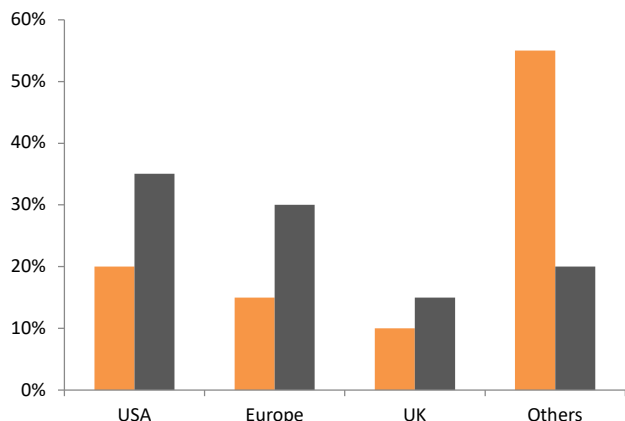
Source: Company, Equirus Securities

Exhibit 6: Quartz sinks will continue to dominate the top-line though contribution from other segments should also improve



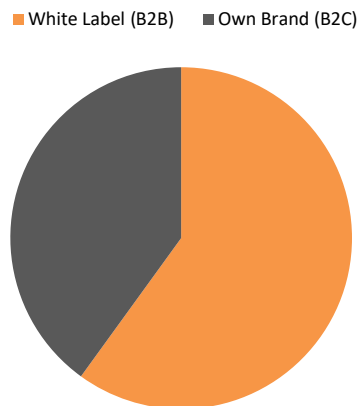
Source: Company, Equirus Securities

Exhibit 7: Contribution from USA, Europe and UK to overall Quartz sink exports have improved for the company over FY17-21



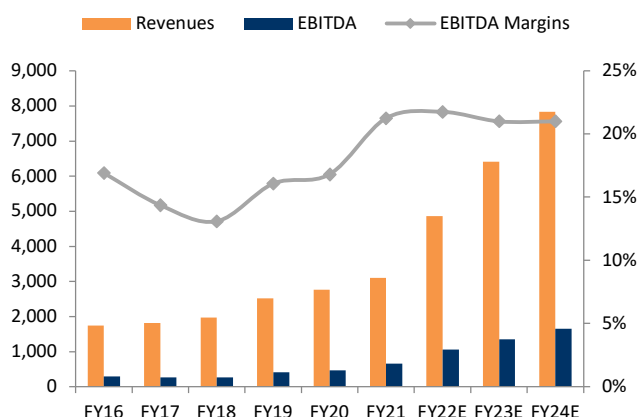
Source: Industry, Equirus Securities

Exhibit 8: Company has been trying to increase contribution under its own brand particularly in domestic market



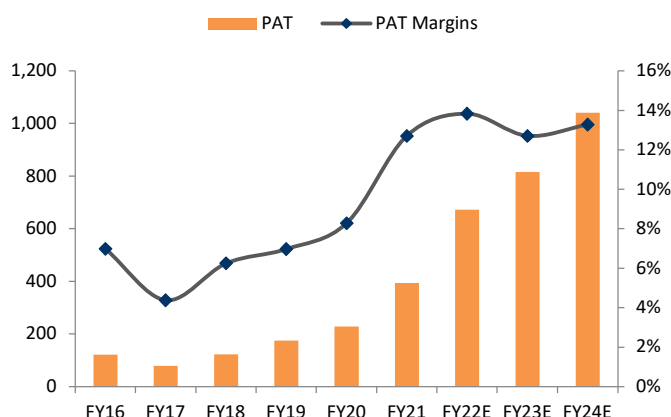
Source: Industry, Equirus Securities

Exhibit 9: Expect Revenues and EBITDA to grow at 36% CAGR each over FY21-24E



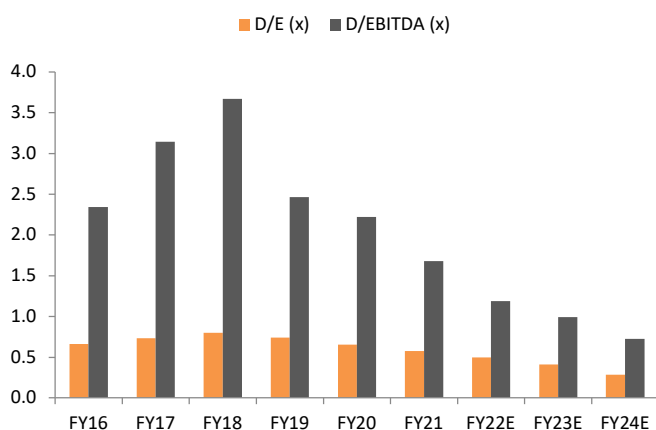
Source: Company, Equirus Securities

Exhibit 10: Expect PAT CAGR of 38% over FY21-24E and margins to sustain at existing level for the period



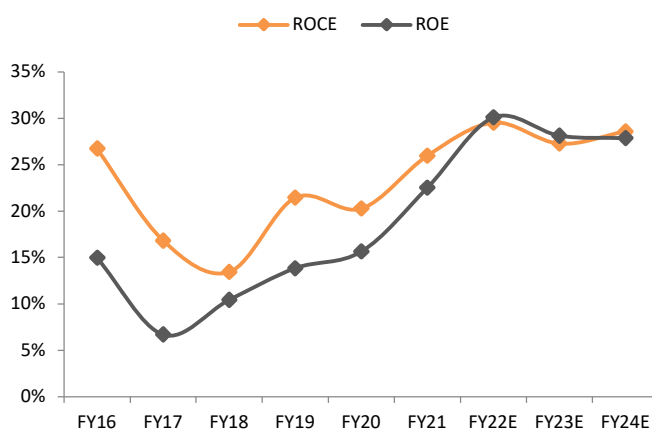
Source: Company, Equirus Securities

Exhibit 11: Expect D/E and D/EBITDA to go down to 0.3x and 0.7x by FY24E due to strong cash flow generation



Source: Company, Equirus Securities

Exhibit 12: Expect ROCE and ROE to improve from 26%/23% in FY21 to 29%/28% by FY24



Source: Company, Equirus Securities

Key Investment Arguments

ACRY among four global/largest Asian manufacturer of quartz sinks using German technology

60-65% of ~6mn global quartz sink capacity controlled by Blanco and Franke, 25% by Schock and rest by ACRY

At CY21-end, 80% of market was steel sinks, 10-12% quartz sinks and the rest ceramic, glass, fireclay, metal sinks and others

- As per global market insights, the home improvement market is estimated to have crossed USD 763bn in 2020 and poised to grow by 4.3% over 2021-2027 to USD 1,009bn+. Shifting consumer preferences towards more energy-efficient and luxurious living spaces would push industry expansion. Additionally, the prominence of e-commerce and availability of technologically advanced system upgrades will propel home remodeling activities globally. [Source](#)
- As per industry estimates and our understanding, the global market of kitchen sinks is 80-90mn units. At CY21-end, 80% of the market constituted steel sinks, 10-12% quartz sinks (using German technology + others) while the rest comprised ceramic/glass/fireclay/metal sinks & others. Management believes the share of Quartz sinks would increase to 20% over the next five years. In the US, UK, Germany and China, quartz sinks continue to see mid-to-high double-digit growth; penetration in the overall sink market in these countries is likely at 15-20% currently.
- Within quartz sinks, 5.5-6mn units are manufactured using German technology. Globally, quartz sink manufacturing based on this technology is available to only four players: Blanco, Franke, Schock and ACRY. Currently 60-65% of the ~6mn global quartz sink manufacturing capacity is controlled by Blanco and Franke, 25% by Schock and the rest by ACRY. The first three companies are private European players while ACRY is the sole manufacturer in India and Asia.
- The technology is difficult to adopt as it cannot be replicated for large-scale mass production. This knowhow acts as a strong moat for existing players and is an entry barrier, including for Chinese players. Schock also must get clearances from users before granting technology to a new player.
- Europe and North America are the largest markets globally for kitchen sinks. The stay-at-home quotient induced by the pandemic has buoyed demand for home improvement products. Remodeling/ renovation cycle in Europe and North America is typically 5-7 years with kitchen a key focus area.
- The quartz sink global market is expected clock a 15-20% CAGR aided by renovation demand and new housing construction. Renovation of old conventional kitchens with modern equipment and facilities currently forms 60-65% of total demand.
- The pricing differential between steel and quartz sinks, for a like-to-like basic model, has narrowed from 70-80% pre-pandemic to 30-40% due to a sharp rise in steel prices globally. This has further aided a shift towards Quartz sinks in global markets.
- Industry players are continuously investing in R&D to develop cost-effective kitchen sinks with different composite materials.

Consumption trends in the US, World's largest building material consumer – Takeaways from key surveys

NKBA Survey, 2021

The NKBA recently released its design trends study in 2021 related to kitchens and outdoor spaces:

- **Multi-Purpose Spaces:** People wanted kitchen layouts that accommodated working from home and schoolwork due to COVID-19. L-shaped kitchens with large islands were expected to dominate near-term.
- **Larger Kitchens:** Larger kitchens were seen as a near-term trend since people were not going out to eat as much because of the pandemic. They needed to accommodate the family resulting in larger pantries and increased storage spaces.
- **Outdoor Spaces:** Because of the pandemic, outdoor kitchens gained in popularity. About 40% of respondents created brand new outdoor living spaces with kitchens leading the charge.
- **Changes in Style:** Traditional kitchens, a top-three style for years, fell to the tenth most popular while the organic/natural style moved up from ninth place to third. Contemporary and transitional placed first and second for both kitchens and bathrooms.

Larger kitchens in trend with layouts to accommodate WFH facilities

NKBA's Annual Design Trends Report, 2022

The study, a deep dive into all aspects of both kitchen and primary bathroom design, forecasts the styles, features, materials and innovations expected to be most popular over the next two to three years.

- o The study found that the pandemic has accelerated consumer interest in and adoption of key trends in their homes such as integration of smart technology, multi-functional spaces and nature-based designs.
- o Consumers are more eager to embrace new technologies, innovative ways to provide multi-functional options to maximize their space and are opting for surfaces and designs that make it easier to clean, as well as address health and wellness.
- o Covid-19 made people conscious of high-contact surface points, pushing homeowners towards hands-free and voice-activated technology. In fact, devices offering touchless technology have become the breakout stars within the kitchen and bath space.
- o Millennials are leading the increase in natural and contemporary designs, especially within kitchen and bath. Moving away from white and gray as primary colors, designers expect nature-inspired colors to grow in prominence, notably greens and blues.
- o Traditional kitchens, a top-three style for years, fell to the tenth most popular while the organic/natural style moved up from ninth place to third. Contemporary and transitional placed first and second for both kitchens and bathrooms.

Devices offering touchless technology popular within kitchen and bath spaces

Houzz & Home: Overview of U.S. renovation in 2020 & 2021 report [\(Source\)](#)

The annual Houzz & Home study is the largest survey of residential remodelling, building and decorating activity, and covers every aspect of home renovation in 2020 – from interior remodels and additions to home systems, exterior upgrades and outdoor projects. It includes historical and planned spend, professional involvement and motivations behind these projects, as well as activities planned for 2021. The ~160-question survey gathered information from Houzz users (final sample: 75,470 respondents in U.S.). Key takeaways:

- o Kitchen renovations continued to top the list of popular interior upgrades followed by bathroom remodels and additions. Homeowners are investing in smaller areas such as home offices & closets. Demand for home office projects jumped 400bps and these projects were 10% more expensive in 2020. Avg. spending on kitchens stood at US\$ 12,000 while that on master bathroom at US\$ 8,000.
- o Home renovation spend grew 15% in CY20 to a median of US\$ 15,000. Higher-budget projects (with top 10% of project spends) increased from US\$ 85,000 or more in 2020 (US\$ 80,000 two years ago).
- o Kitchen projects were the most popular among renovations, and while median spend has been flat on these projects for the past three years, investment on major remodels of large kitchens jumped 14% to US\$ 40,000 in 2020 vs. US\$ 35,000 in 2019.
- o A larger share of homeowners renovated (53%) in 2020 compared with their initial plans (51%). Homeowners spent 15% more on renovations (US\$ 15,000) than a year ago (US\$ 13,000), reversing the downtrend in 2019. Moreover, higher-budget projects (with top 10% spend) increased from US\$ 85,000 or more in 2020 from US\$ 80,000 in 2018 and 2019.
- o After a steady decline in last three years, the share of homeowners spending over US\$ 50,000 on their renovation projects increased slightly in 2020, while the share of homeowners spending less than US\$ 10,000 on their renovation projects declined (35% in 2020, compared with 37% in 2019). The share of homeowners investing between US\$ 10,000 and US\$ 24,999 (28%) has steadily increased since 2018, although it is still below 2016 and 2017 levels (29%).
- o With people home-bound due to the pandemic, the share who reported they had wanted to pursue home renovation all along and finally had the time increased by 600bps in 2020; this remained the top renovation trigger. Wanting to do it all along and finally having the financial means also rose by 200bps in CY20 (reported by 36% of homeowners compared with 34% in 2019). "Adapting to recent changes in lifestyle" also increased 200bps (18% in 2020 compared with 16% in 2019).
- o Four in five millennials followed renovations with furniture and decor purchases. Large furniture and storage solutions were used for interior spaces, and fire features (fire pits) were incorporated into outdoor areas.

In 2020, avg. spending on kitchens at US\$ 12,000 and that on master bathrooms at US\$ 8,000

Houzz study (sample size: 2,400 homeowners)

Median spends for major and minor kitchen remodels increase in mid-2021 by 14% yoy to US\$ 40,000 and 25% yoy to US\$ 10,000, respectively

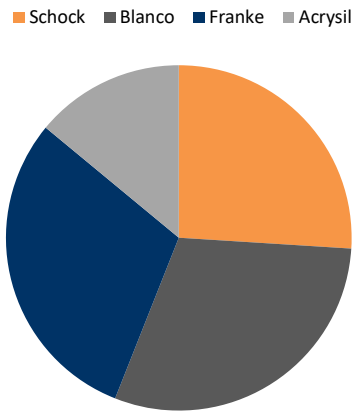
- The survey which consisted of U.S. homeowners using Houzz who are amidst planning, or recently completed a kitchen renovation, found that the share of homeowners upgrading major kitchen features increased significantly across many categories this year vs. last year.
- The survey highlighted homeowners are not only splurging on specific features but also making major modifications to the kitchen layout, systems and walls.
- When deciding to upgrade a kitchen, finally having the means continues to be the primary trigger for renovating homeowners (45%, up 500bps yoy). The percentage citing this reason has increased consistently every year since 2019. Having an old kitchen that deteriorated or broke down remains the third-most-common trigger for kitchen renovations (29%), in line with the previous year.
- Countertops & backsplashes continue to be the most popular features to renovate (chosen by 91% & 86% of homeowners respectively) both up 300bps yoy. More sinks (+400bps yoy), faucets, light fixtures and interior doors are also being upgraded this year than the previous year.
- Median spends for both major and minor kitchen remodels increased in mid-2021 by 14% yoy to US\$ 40,000 and by 25% yoy to US\$ 10,000, respectively. Median spends for a major kitchen remodel of a large kitchen (250 sq.ft. or more), continued to climb for the fourth year in a row, to US\$ 50,000 vs. US\$ 45,000 in P.Y. Median spends on a major small kitchen remodel (<250 square feet), increased to US\$ 35,000 in mid-2021 from US\$ 30,000 in mid-2020.
- More than one in three (35%) renovating homeowners who are upgrading the kitchen reported that they decided to spend significantly more than originally planned, or “splurge”, on new countertops. Other areas where renovators spent more than originally intended include appliances (27%), cabinets (23%), backsplash (20%) and Sinks (13%).

NKBA 2022 Kitchen & Bath (K&B) market outlook study

Another strong year (CY22) anticipated for Kitchen and Bath industry in the US

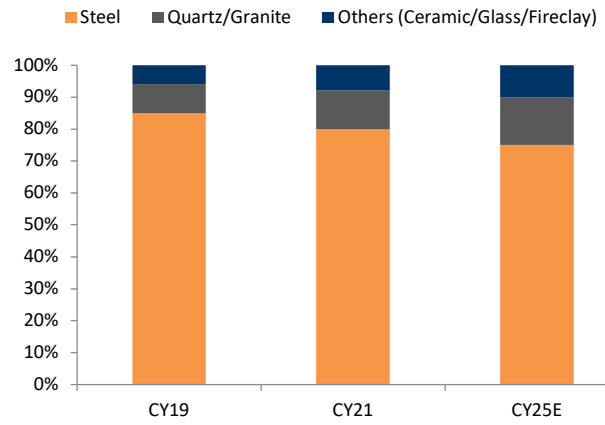
- K&B revenues are expected to grow by 19% for the second straight year, translating into projected annual revenues of US\$ 199bn, an all-time record.
- By segment, kitchens remodels are expected to increase more than 20% and bathrooms by 18%.
- Economic and housing trends and indicators for 2022 remain encouraging for the upcoming year. A wave of new communities would be built in 2022, which will help boost new construction. The number of single-family homes entering their prime remodel years (20-40 years of age) are experiencing a steep rise that should continue through 2026. Additionally, although inflation is pegged at about 6%, single-family homes are forecast to appreciate an additional 9% over last year’s double-digit gains.
- Additionally, banks are expected to ease credit standards for home equity lines of credit this year, an additional impetus for some to remodel.
- New construction, which should account for nearly US\$ 120bn in revenues vs. US\$ 80bn for upgrades, is forecast to grow by 21% vs. a gain of 16% for remodels. Of this 21%, 6% of the projected increase will be due to rising housing starts while the remainder is expected to come from the completion of delayed installs from last year (9%) and price inflation (6%).
- Last year, high-end projects grew 20% yoy while low-spend projects grew barely into double-digits. However, this year, the situation is expected to get completely reversed, with lower-level projects expected to show a gain of nearly 21%, double that of high-end. Ever-increasing costs across all kitchen and bath products are likely a major factor. The mid-level project is forecast to grow by ~26%.
- Demand for remodels remains strong, with backlogs from 2021 providing a strong tailwind. But some homeowners are pausing in the hope that pricing will edge down, while others are simply scaling back.
- The pandemic has been largely responsible for a sea change in employment dynamics. Prior to COVID-19, 1 in 67 people worked exclusively remotely; that figure is now 1 in 7. This trend has led to more geographic flexibility, as many are leaving high-cost housing markets (Los Angeles, San Francisco) in favor of smaller cities (Austin, Texas, Greenville, South Carolina) where housing is more affordable.

Exhibit 13: Blanco & Franke – largest players in German technology-made Quartz sink market



Source: Company, Equirus Securities

Exhibit 14: Though steel sinks will continue dominating global markets, Quartz sinks are expected to see fastest growth



Source: Company, Equirus Securities

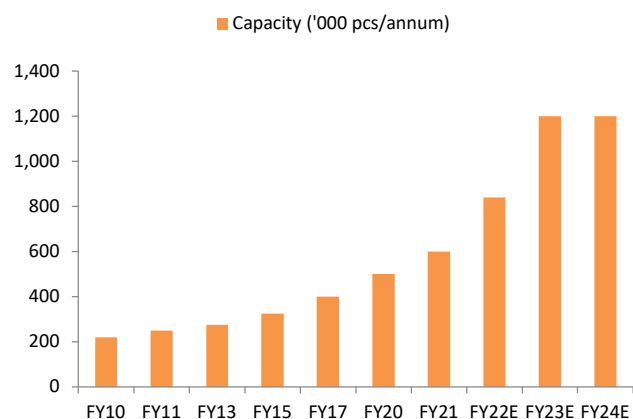
Aggressive expansion of quartz sinks to help tap export opportunities

- Over the last decade, ACRY remained conservative in capacity addition. It expanded quartz sink capacity gradually, from 250,000 units/annum in FY11 to 600,000 units/annum by FY21 to service the steady but increasing demand of kitchen sinks in the US, UK and Europe.
- The company has now embarked on an aggressive expansion spree; management believes that pandemic-related home construction/renovation trend and a change in consumer behavior have accelerated market share gains for quartz sinks (vs. traditional steel sinks). ACRY intends to capture the demand-supply mismatch created due to strong demand for quartz sinks at one hand and capacity constraints faced by all four global players on the other. As per management, the company is currently unable to service 35-40% of incremental demand generated in export and domestic markets due to insufficient capacity and so has to constantly rationalize & prioritize its supply to meet export demand.
- ACRY aims to increase capacity to 1.2mn units/annum by 1HFY23 (already reached 840,000 units by 9MFY22) via brownfield & greenfield expansions. Total capex of ~Rs 1.18bn would be funded via a mix of debt and internal accruals. At peak utilization, the additional capacity will generate incremental revenues of Rs 3.2-3.3bn (Asset turns in Quartz sinks normally range between 2.5-3x.).
- Currently, ACRY is working near full capacity utilization (ideally company can clock 96-97% at peak utilization as 3-4% out-time required for mould replacement).
- Among the other 3 players, Schock has announced its plans to invest USD 85mn to establish its first U.S. manufacturing operation (outside Germany) in Virginia, USA. It would be a 95,500-square-foot facility and the first phase of a multi-step construction project is expected to last five years. Company officials highlighted that the expansion would allow it to capitalize on rising consumer demand for colored kitchen sinks with local 'Made in the USA' products.
- Quartz sinks will remain a major revenue driver ahead (75%/76% in FY21/9MFY22). We expect this segment to post a 18% revenue CAGR over FY22-25E.
- For steel sinks, ACRY is doubling annual capacity from 90,000 units currently to 180,000 units, set to become operational by FY22-end at a total capex of ~Rs 100mn. Majority of the incremental capacity addition would be for Quadro sinks – a value-added product with a premium over commodity press sinks, and realizations slightly below/at par with quartz sinks. In press line sinks, a more commoditized product, ACRY faces stiff competition from local/Chinese players.
- ACRY has also commenced operations of its physical vapor deposition (PVD) plant for manufacturing and coating of designer steel sinks (value-added products) from Nov'20, for a capex of Rs 30mn. The PVD plant has an installed capacity of 50,000 units p.a.

To double annual capacity of quartz sinks from 600,000 units in FY21 to 1.2mn units by 1HFY23

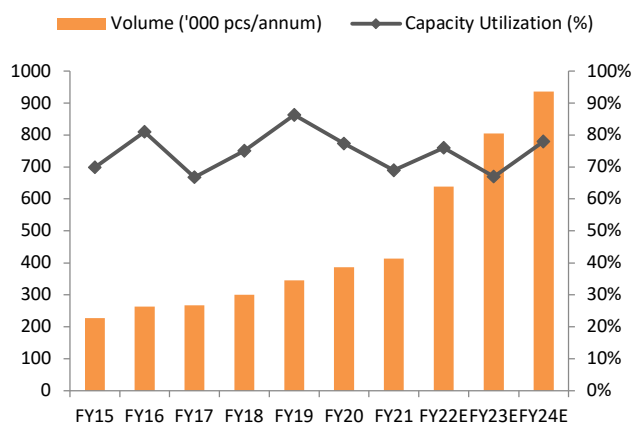
Doubling its Steel sink manufacturing capacity by FY22E end to cater to incremental value added product demand

Exhibit 15: Company is doubling its Quartz sink capacity by FY24E in order to grab the incremental growth opportunity globally



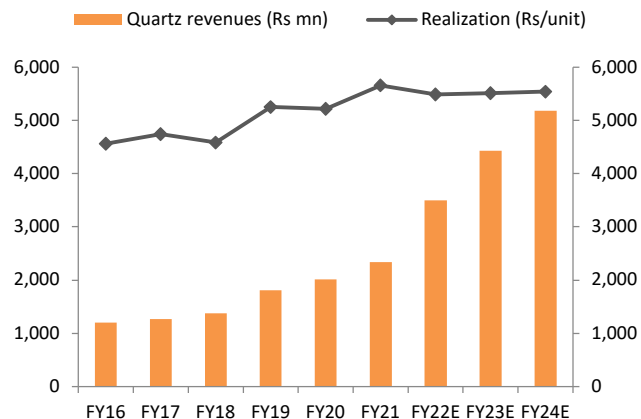
Source: Company, Equirus Securities

Exhibit 16: Utilization to improve on back of incremental export opportunities and increased domestic penetration



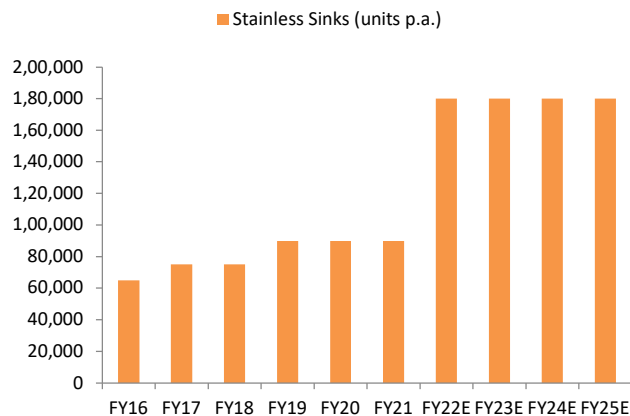
Source: Company, Equirus Securities

Exhibit 17: Expect 31%/30% quartz volume/revenue CAGR over FY21-24E



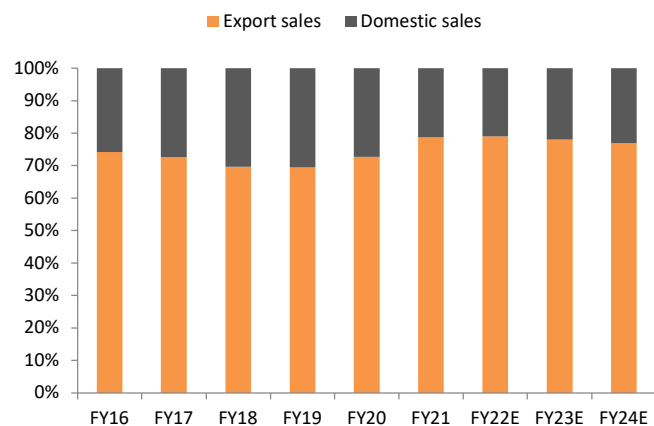
Source: Company, Equirus Securities

Exhibit 18: ACRY is also ramping up its capacity of Stainless-steel sinks to cater to the value-added product segment



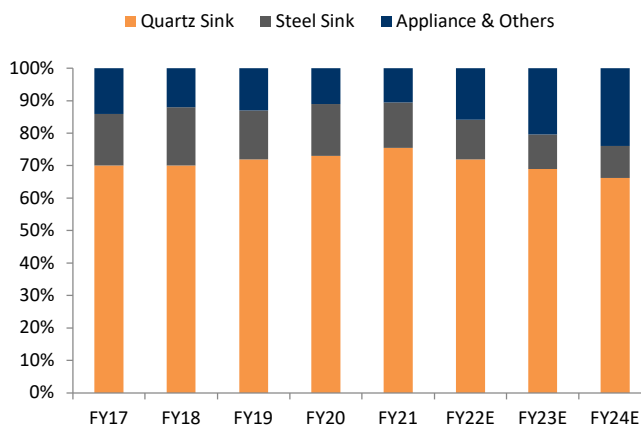
Source: Company, Equirus Securities

Exhibit 19: Exports to remain a key growth driver; domestic sales to improve gradually



Source: Company, Equirus Securities

Exhibit 20: Quartz sinks will continue to dominate the topline though contribution from other segments should also improve



Source: Company, Equirus Securities

Global aspirations, Existing/Potential strategic tie-ups with global retail bigwigs to drive sustainable volume offtake

Entered into a strategic partnership with IKEA Supply AG in Aug'20 to manufacture/ supply composite quartz kitchen sinks

Servicing on-line sales demand for Lowe's & Home Depot and doing white label sales for Kraus and Karen

- ACRY currently has alliances/partnerships in the US, UK, France, Denmark and Germany.
- In Nov'18, the company entered into an agreement with German brand, GROHE, for the supply of quartz kitchen sinks. GROHE is present in > 130 countries and is a dominant player in bathroom solutions and kitchen fittings. ACRY is the sole supplier to Grohe globally. As per management commentary, the agreement has the potential to bring in additional revenues of Rs 500mn-600mn over the next 3 years.
- In Aug'20, ACRY tied up IKEA Supply AG (Switzerland) for manufacturing and supplying composite quartz kitchen sinks globally. ACRY has become one of the few suppliers to IKEA globally though it currently services less than 5% of the latter's global quartz sink requirement. This partnership should prove to be a game-changer as IKEA is the third largest retailer globally (global CY21 revenues: ~€ 42bn) and has a strong presence via 454 stores in 60 countries (as of Nov'21). About 70% of IKEA's stores are in Europe.
- ACRY will invest in moulds and new-design preparation for IKEA. Models given to the company are a part of an existing product line for IKEA. ACRY will likely take the market share of current suppliers to IKEA.
- ACRY has started servicing on-line sales demand for Lowe's & Home Depot in the US and is also doing white label sales for other box retailers like Kraus and Karen in the US. B&Q and Homebase have also started sourcing Quartz sinks from ACRY.
- We believe such additional tie-ups will lead to more sustainable and repetitive business for ACRY as it looks to expand its international presence in the core business of quartz sinks. It currently has developed >120+ quartz sink models to cater to various segments/markets.
- ACRY currently exports to ~55 countries and over the years, has gradually gained foothold in major consuming countries such as Germany, US, UK, China, South Africa, and Australia. The company is looking to increase its presence in 70 countries over the next 3 years.
- In the export market, 75-80% of sales are through contract manufacturing and 20-25% through ACRY's in-house brand, *Carysil*. Acrysil is very clear in its strategy to not compete with its clients in the export market as Big brands are well established at the global level, so it is easier to sell to them rather than to compete with them. Company does not do direct retail business in the export, everything is through wholesalers and distributors.
- US, a market that ACRY entered into 7-8 years ago, accounts for 30-35% of quartz sink exports vs. 20-25% 4-5 years back. The company had incorporated a wholly-owned subsidiary, ACRY USA Inc., on 30 Apr'20. The subsidiary will deal in kitchen products, bath products and tiles.

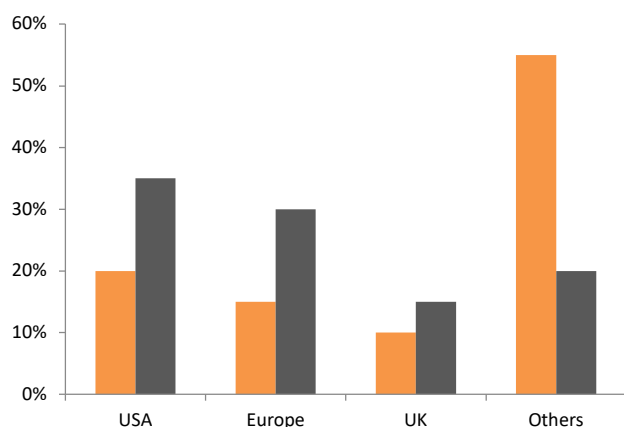
Potential tie-up with Menard – third largest retail chain after Home Depot and Lowe's in US

- ACRY's distributor/partner in the US expects a potential tie-up with Menards. Menards is a US\$ 10bn retail store with 850 outlets, mostly in mid-west US. It is already sourcing ACRY products indirectly and expects the possibility of a direct tie-up.
- ACRY will distribute its quartz sinks in all Menards stores across the US. It currently has 4 SKU offerings, which it will ramp up to 18 in the near term.
- ACRY also has two other major customers, Karren and Kraus, and expects a potential tie-up with MSI – the largest Quartz slabs importer in the US (imports ~30,000 containers of quartz slabs into US).
- ACRY has started working with Home Depot and Lowe's for their online sales program but has not approached them for stocking program because of capacity constraints. Once it is able to ramp-up capacities, management will also approach these two players for possible tie-ups.

Holds a 100% stake in UK's Homestyle Products, which posted a 47% revenue CAGR (INR terms) over FY17-21

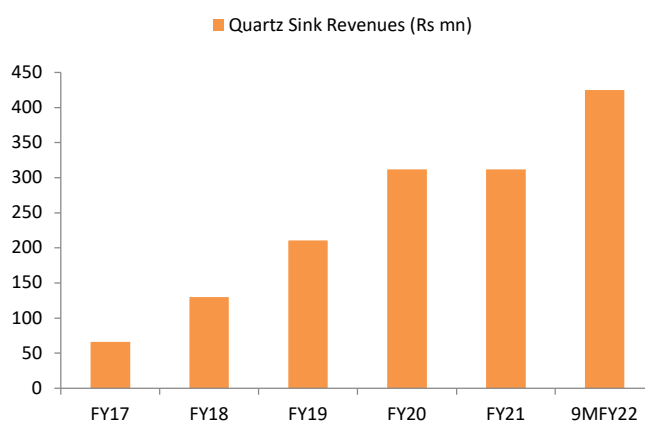
- Europe currently accounts for 30% of the company's exports. Within Eurozone, Germany has been one of the fastest growth drivers for the company's quartz sink exports and it expects strong growth from the German market over the next 2-3 years. ACRY will leverage its existing tie-up with Grohe to gain larger market share in Germany and Eurozone.
- UK contributes 15% of ACRY's international sales (nil 5-6 years back). As per management, price realization of Quartz/Granite sinks in UK is amongst the highest in the world.
- ACRY had acquired a 75% stake in UK's Homestyle Products for Rs 265mn in Jun'14, and currently holds a 100% stake (subsequently, Homestyle Products was rechristened Acrysil Products Ltd.). Over FY17-FY21, revenues from this subsidiary increased from £ 3.9mn to £ 6.5mn (14% CAGR) while 9MFY22 revenues stood at £ 7.4mn. Quartz sinks made up 57% of revenue, stainless sinks 27% and other products 15%. Revenues from Quartz sink segment have grown at 47% CAGR from Rs 66mn in FY17 to Rs 312mn in FY21 and stood at Rs 425mn for 9MFY22. Management believes the company would become no. 3 in UK by FY22-end.
- The company has 130+ moulds of which 120+ are for quartz kitchen sinks. Any fluctuation in prices of moulds or other RM are generally passed on to customers. There may be a lag of 2-3 months if booking for sales orders is already done.
- The company sometimes gets mould drawings directly from customers and gets mould manufactured in such customized designs. At times, customers demand 3-4 moulds with different features; to this end, ACRY has a dedicated design team and tries to finish this within 30 days – making it one of the fastest amongst peers.
- Management indicated that although the useful life of quartz sinks is 15 years, a replacement cycle of 5-7 years is normally seen in developed markets.
- Revenue contribution from other categories, mainly kitchen appliances and bath-ware, should pick-up over the next 4-5 years led by increased penetration in domestic market. The global smart kitchen appliances market was valued at US\$ 11.76bn in 2020 and is expected to clock a 19.1% CAGR by 2026 with growth being led by emerging economies. The growing preference for modular kitchens is expected to lead to higher sales in the smart kitchen appliances category, especially backed by affluent households aspiring to create a smarter home.

Exhibit 21: Contribution from US, Europe and UK to Quartz sink exports improve over FY17-FY21



Source: Company, Equirus Securities

Exhibit 22: Quartz Revenues from Acrysil Product Ltd. (UK subsidiary) have grown at 47% CAGR over FY17-21



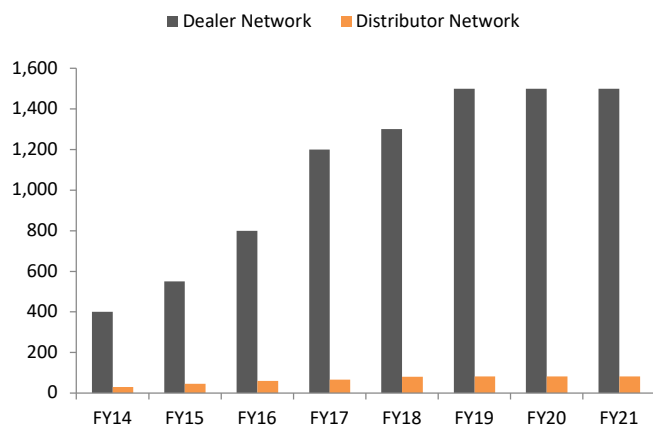
Source: Company, Equirus Securities

Continues to invest in improving visibility among consumers and penetration in the domestic market:

Targets to take exports: domestic business ratio from 79%:21% to 65%:35%

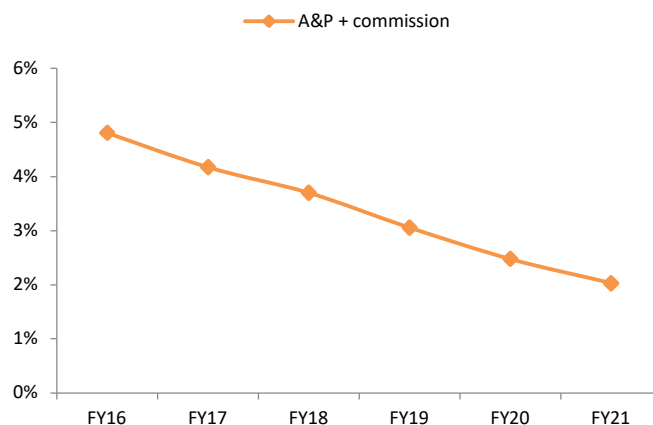
- ACRY's export: domestic business ratio is currently at 79%:21% vs. 73%:27% in FY20 as export opportunities have picked up strongly during last 1.5 years. However, company's mid-term target is to take this ratio to 65%:35% over the next 4-5 years.
- For ACRY, domestic market sales are via distributors/dealers and building projects. Distributors/ dealers account for 80% of domestic sales while B2B sales for the remaining.
- Normally, 60-70% of domestic market demand comes from new home construction while 30-40% is renovation demand. South India remains a dominant market for the company's products while contribution from North and West India is evenly balanced.
- ACRY has been strengthening brand visibility via continuous investments in promotions on TV, print and social media, in addition to sponsoring events such as Times Food and MasterChef Australia. To strengthen the STERNHAGEN Brand, ACRY has signed an agreement with Farah Ali Khan, a well-known jewelry designer and Indian gemmologist.
- The company has recently roped in Bollywood actress Vani Kapoor as its brand ambassador to improve visibility of its Kitchen appliances (5% to FY21 consolidated topline). The brand has launched a 360-degree campaign, called **#TheHeartOfMyHome** in Nov'21 ([Source](#))
- ACRY has increased its distributor/dealer network from 30/400 in FY14 to 82/1,500 in FY21. It also had ~80 franchise galleries in FY21 and plans to add further ~100 new galleries and ~34 distributors over the next 2-3 years.
- ACRY is upgrading its dealer network from C to B and from B to A. The C category dealer has more of a prototype display where 1-2 sinks can be displayed. The B category, on the other hand, has about at least 10 models in both granite and steel. Category A is a 500-1,000 sq. ft. standalone showroom categorized as a franchisee model.
- In the export market, ~80% of the company's exports are white labeled. ACRY has been gradually improving its 'CARYSIL' brand presence in Singapore, Australia, New Zealand, South Africa, and Vietnam.
- ACRY controls 95% of the domestic market for quartz sinks with German technology (rest being imports) and ~5% of the market for steel sinks.
- As per management, there is an avg. difference of Rs 1,000-1,500/unit between domestic and exports (exports being more remunerative); in the domestic market, more single bowl sinks are sold (60-70% of normal value sink). However, gross margins are similar to exports. Domestic EBITDA margins are slightly lower due to higher sales & marketing expenditure.

Exhibit 23: Invests in gradual built up of domestic visibility; currently rationalizing its trade channel



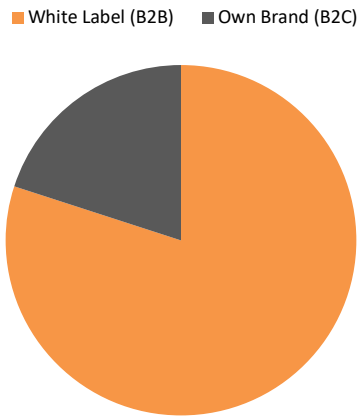
Source: Company, Equirus Securities

Exhibit 24: A&P + commission spending (% of sales) on a downtrend in last 5 years due to higher export focus



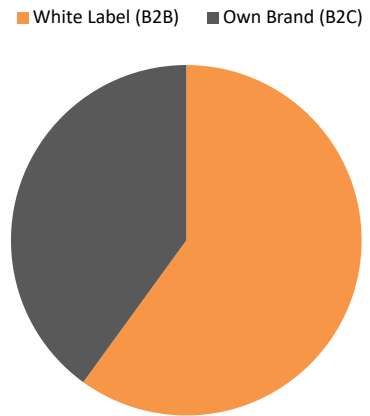
Source: Company, Equirus Securities

Exhibit 25: Majority of company's exports under White Label



Source: Company, Equirus Securities

Exhibit 26: Trying to increase domestic contribution under own brand

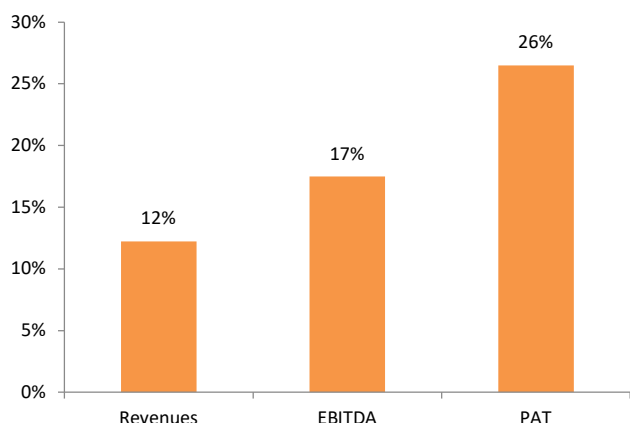


Source: Company, Equirus Securities

Valuation & View

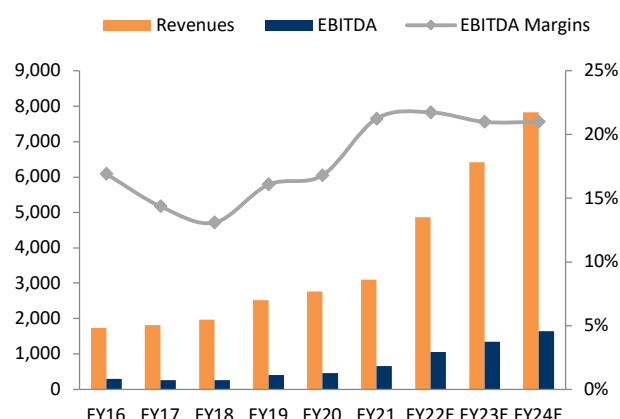
- At FY21-end, ACRY posted a 10/5/3 year sales CAGR of 19%/12%/16%, EBITDA CAGR of 20%/17%/37% and PAT CAGR of 23%/29%/49%.
- Over FY22-FY25E, we expect revenues/EBITDA/PAT CAGR of 23%/21%/22% led by (a) aggressive capacity addition, (b) continued shift in consumer preference from steel to quartz sinks, (c) improved offtake from existing/additional tie-ups with global big box retailers and (d) gradual domestic market penetration.
- We expect the company's D/E to improve from 0.5x in FY22 to 0.1x by FY25E on back of ramp-up from new capacity from 2HFY23 onwards.
- Company has managed to reduce its NWC days from 113 in FY21 to 96 days in 1H22 and management has been highlighting that they want to bring it down further to ~90 days. We are building in WC days to reduce to 93 days in FY22 and then see gradual recovery from thereon.
- At the CMP of Rs 857, the stock is trading at a PE of 28x/22x/19x on FY23/FY24E/FY25E earnings estimates.

Exhibit 27: Strong growth in operating profits and PAT over FY17-FY21



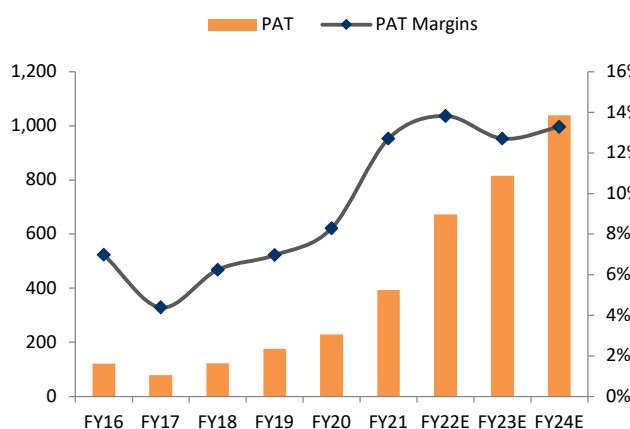
Source: Company, Equirus Securities

Exhibit 28: Revenues/EBITDA to post a 36%/36% CAGR over FY21-24



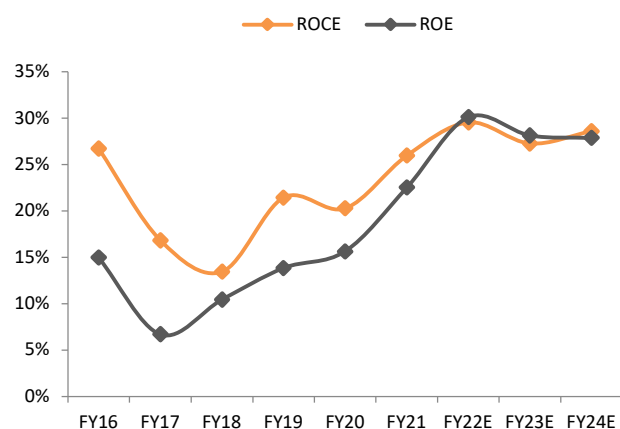
Source: Company, Equirus Securities

Exhibit 29: Expect 38% PAT CAGR over FY21-24E and margins to sustain at existing levels



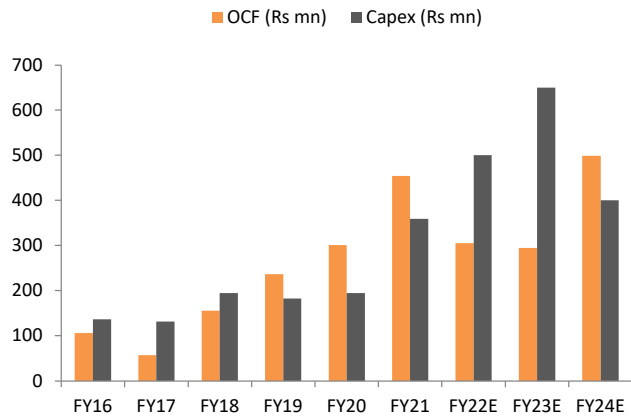
Source: Company, Equirus Securities

Exhibit 30: ROCE/ROE to improve from 26%/23% in FY21 to 29%/28% by FY24



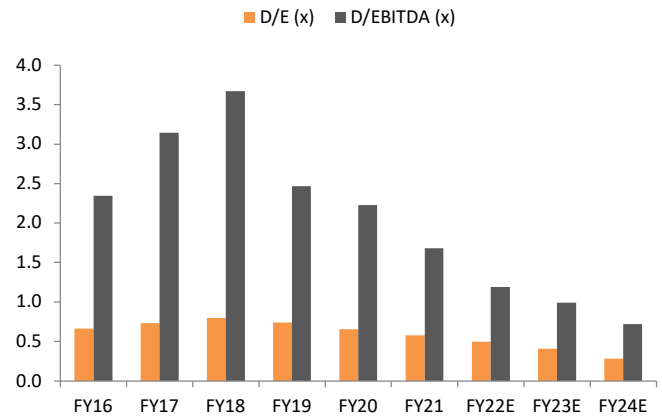
Source: Company, Equirus Securities

Exhibit 31: FY22 and FY23 are expected to see capex outlay due to capacity addition in Quartz segments



Source: Company, Equirus Securities

Exhibit 32: D/E and D/EBITDA to improve to 0.3x and 0.7x by FY24E due to strong cash flow generation



Source: Company, Equirus Securities

Company Profile

Business operations

Among 4 companies globally having German technology for manufacturing quartz sinks

- ACRY was incorporated in 1987 and is headquartered at Bhavnagar, Gujarat. Its product portfolio comprises:
 - Kitchen sinks: Quartz and stainless steel (press, Quadro) sinks; **brands – CARYSIL and TEK CARYSIL**
 - Kitchen appliances: Chimneys, dishwashers, cook tops, wine chillers, hoods, microwave ovens; **brand – CARYSIL**
 - Bath segment: Sanitary-ware, faucets, highlighter tiles; **brand – STERNHAGEN**
- ACRY is the only quartz sink manufacturer in India and Asia and among the four companies in the world having German technology for manufacturing Quartz sinks.
- Capacities installed:
 - **Quartz sinks:** 840,000 units p.a. (3 plants, 130+ molds) as of Oct'21. The company is further putting up 1,60,000 units p.a. for a capex of Rs 380mn (to be commissioned by 1Q23) and has recently announced another expansion of 200,000 units p.a. for additional capex of Rs 200mn (to be commissioned by 2QFY23). Post these two expansions, total capacity would touch 1.2mn sinks/ annum.
 - **Stainless steel:** 90,000 units p.a. (60,000 press sinks, 30,000 Quadro sinks). ACRY will install another 90,000 units p.a. for a capex of Rs 100mn (to be commissioned by 4Q22). Bulk of this capacity would be in Quadro sinks (better margin product).
 - Appliances: 7,000 p.a.
- In FY21, Quartz sinks contributed 75% to the topline, Stainless-steel sinks 14% and appliances + others the remaining.
- ACRY has partnered with a leading Hungarian firm to produce 3D composite wall tiles, becoming Asia's first company and the world's second-largest company to do so.
- Distribution network and reach: 1500+ dealers, 82+ distributors, 80+ galleries and 75+ franchise offices. ACRY has 400+ SKUs.
- The company exports to 55+ countries and has 3 global offices.
- In FY18, it entered into a technical tie-up with 'Nextship', a Hungarian Company for manufacturing of composite tiles.
- 120+ Models have been developed to cater to Kitchen Sinks segment of the market.
- All ACRY products follow standards set by IAPMO, a US-based reputed plumbing certification. For the Canadian market, the company has certification from the Canadian Standard Association (CSA). ACRY had developed ISTA (International Safe Transit Association, USA) compliant packaging and serves customers with ISTA 1, ISTA2A, ISTA 3A and ISTA 6 compliant packaging (Source: Company Annual Report).

Bath segment (Product portfolio – Premium Sanitary Ware, Fittings, Highlighter Tiles)

Increasing visibility and presence of Sternhagen brand (a premium German brand) via Sanitaryware sinks and bath fittings priced at Rs 20,000-60,000/sink

- In FY11, ACRY established a wholly owned subsidiary in Germany, 'ACRY GmbH'. Subsequently, it launched STERNHAGEN – a premium brand for sanitary-ware and bathroom fittings from Germany, with prices at Rs 20,000-Rs 60,000/sink.
- About 95% of kitchen sink dealers in India also deal in the bath segment. Thus, ACRY has been able to gradually entice its trade channel to deal in STERNHAGEN products.
- Segment includes 3D products, which are 3x the price of a normal WC and are launched for the first time in the world. The company has developed a full bathroom concept and has a whole range of bathroom products including fittings WC, highlighter wall tiles.
- Product contribution is 50% ceramics and 50% ACRY manufactured products.
- The company manufactures Quartz washbasins, Quartz tiles, and concrete tiles in house; these generate gross margins of 70% though these are still underutilized at 20% as far as manufacturing is concerned. Outsourced ceramic products are sold at 40% gross margins.
- ACRY manufactures concrete tiles in technological collaboration with a leading Hungarian company – the only one to make such tiles. Prices of concrete tiles are half of Quartz tiles.
- ACRY has 80+ galleries and SIS for displaying products. It also has 65 dealers across India.
- Synergy in Quartz Sink Technology has helped ACRY develop 'Sani-Q' – a patented high-tech Quartz material with silk finish, to produce premium sanitary-ware, fittings and highlighter tiles.
- ACRY has also developed full bathroom concepts and will shortly launch the whole range of bathroom products, including fittings and WCs. Management expects that the brand will be among the top-5 in luxury bath-ware in India.
- ACRY has signed an agreement with Farah Ali Khan for Sternhagen brand.

Appliances

Offers built-in appliances such as kitchen hood, cooktops, ovens, microwaves, dishwashers, built-in refrigerators, and wine chillers

- India's kitchen appliances market was estimated at Rs 21.5bn in 2018, of which 45-50% was contributed by large kitchen appliances – a segment which should help drive a 12% CAGR in the overall appliances market.
- ACRY's portfolio consists of built-in appliances such as kitchen hood, cooktops, ovens, microwaves, dishwashers, built-in refrigerators, and wine chillers.
- Assembly and trading sales account for ~95% of this segment while own manufacturing the remaining 5%. Over the next 3-4 years, ACRY aims to shift ~30% of manufacturing in-house. Gross margins of this division are 40-45%.
- Chimneys contribute ~60-65% of the company's appliances business and it has started in-house manufacturing of a few chimney models.
- Management's strategy is to position the segment as more of a premium brand rather than a mass-selling brand as the latter requires higher ad spends – unlikely to be absorbed due to smaller scale. So, the company tries to push sales through franchises and is positioning it as an architect-driven product rather than a customer-driven one.

Major subsidiaries

Acrysil UK Ltd	<ul style="list-style-type: none"> • ACRY UK, earlier Homestyle Products, services the UK market. It is a distribution company for ACRY selling all its products. The subsidiary also procures products from third parties to sell in the UK market • ACRY has acquired 74% in homestyle products in Dec'14 for Rs 205mn, marking its entry into the premium UK market for kitchen & accessories. ACRY now owns a 100% stake in the company. • In INR terms, ACRY UK's turnover increased from Rs 328mn in FY16 to Rs 637mn in FY21 while PAT from Rs 45mn to Rs 93mn
Acrysil USA INC	<ul style="list-style-type: none"> • ACRY incorporated a wholly owned subsidiary, ACRY USA INC, on 30 Apr'20 to deal in kitchen, bathroom, and tile products. • ACRY would leverage the subsidiary's presence to strengthen footprint in the US and deepen relationships with big box retailers (incl. home products)

Key Takeaways from FY21 Annual Report

- Quartz sinks will remain the company's core competency; it ventured into the bathroom segment as its distribution channel suited the existing line of business.
- Key brands: *Tek Carysil*, *Carysil* and *Sternhagen*.
- ACRY is focused on its vision to be the world's most innovative Kitchen Sink company and sustain profitable growth.
- The company believes that WFH, adopting sanitation, desire for products with aesthetics accompanied by health, hygiene and innovation is new way of life and not a temporary blip both in domestic and export markets.
- It is strategically expanding its distribution base and offering extended touchpoints. It is also focusing on increasing exports of stainless-steel sinks.
- Kitchen appliances: Key FY21 highlights
 - a) ACRY is focusing on aspirational products with new-age solutions backed by performance, innovation and technology.
 - b) Segment saw good response in North America led by pandemic-driven online sales.
 - c) ACRY entrenched its distribution base to connect with customers to understand their requirements and reinvented its products to bring the best experience.
 - d) It capitalized on innovation and R&D strength and saw good traction in motion sensor chimneys, dishwashers and wine chillers.
 - e) ACRY improved its customer services through effective service centers and multiple customer touchpoints.
- Bathroom Suites: Key FY21 highlights
 - a) ACRY is witnessing a paradigm shift, with a bathroom gradually being viewed as a lifestyle statement versus a utility space earlier.
 - b) The segment had a robust order book from the south India market.
 - c) Strong demand was witnessed for Kristall, Opale, Marine, Starbust products and Shin.
- During FY21, ACRY launched quartz antibacterial sinks and stainless-steel integrated worktops and set up special purpose machines to ensure seamless installation of stainless-steel countertops.

Quartz sinks to remain ACRY's core competency

- ACRY's largest customer contributes not more than 15% of its revenue. Also, the company stays 50% hedged against currency fluctuations.
 - Salary of C.M.D. (w.e.f. November 1, 2021): Basic Salary – Rs 16.8mn/annum and other allowances/perquisites – Rs 16.8mn/annum. The remuneration proposed to be paid to Mr. Chirag A. Parekh as per the limit prescribed under Section 197 read with Schedule V of Companies Act, 2013 is in excess of Net Profit computed under Section 198 and as prescribed in Part II of Schedule II of Schedule V of the Companies Act, 2013. % increase in remuneration of CMD for FY21 was 10.3%.
 - Avg. increase in employee salaries (ex-managerial personnel) for FY21 was 12.2%.
 - ACRY has three operating subsidiary companies: ACRY UK, ACRY GmbH, Germany and ACRY Steel. Further, two subsidiary companies are yet to commence business: ACRY Appliances and Sternhagen Bath.
 - The Audit committee met 5 (five) times during the financial year 2020-21.
- **Employee Stock Option Plan 2021**
 - a) During FY21, the Board of Directors at its meeting held on 18 Mar'21, based on the recommendation of the Nomination & Remuneration Committee, approved introduction of ACRY Limited - Employees Stock Option Plan 2021 ('ESOP-2021') under which the maximum number of equity shares of the company that could be created, offered, issued and allotted should not exceed 3,00,000 options exercisable into equivalent number of Equity Shares.
 - b) The scheme is extended to Permanent employees of the company/subsidiaries, whether working in India or outside India, and / or to the directors of the company/subsidiaries, whether whole-time or not and to such other persons as may be decided by the Board and/or permitted under SEBI ESOP Regulations (hereinafter referred to as 'Eligible Employees'). The exercise price shall be Rs.60/- per Equity Share payable at the time of exercise of Options.

Board of Directors

- The Board comprises six Directors as on 31 Mar'21, of which one is Managing Director (Mr. Chirag Parekh) and five are Independent Non-Executive Directors (83.33% of the Board strength). The company does not have any Nominee Director appointed by Financial Institutions. None of the Directors are related to any other Director on the Board in term of definition of 'relative' as per the Companies Act, 2013. During FY21, 7 Board meetings were held.

Ahmedabad Gallery visit takeaways

- Domestically, ACRY has gained good market share in West and now has a similar traction in South. The company is yet to gain a meaningful share in domestic metros; however, some green shoots are visible.
- It dominates some pockets of the West, where 8 out of 10 upcoming schemes are using ACRY's products.
- In terms of pricing in India, the company sells at a big discount to other manufacturers with German technology as they import their products into India.
- For the domestic market, ACRY has come out with SK (Sussanne Khan) collection, styled by SK and is a premium category within quartz sinks.
- After addition of SK collection, the company now offers 18 color options in quartz sinks.
- In terms of pricing, quartz sinks sell at a premium to steel sinks. However, within the steel category, Quadro and PVD sinks are priced at par or at a slight premium to quartz sinks.

- Exports did see some blip in 3Q, but the situation seems to be better now.
- Kitchen appliances are also gaining traction in terms of footfalls.
- ACRY has recently started to make some kitchen appliances in house and plans to increase inhouse production as segment volumes increase.

Key risks

- End consumer demand in company's key export markets fizzling out.
- Any adverse FX fluctuations since exports form majority portion of sales.
- Increased global competitive intensity in Quartz sinks exports.
- Margin sustainability not panning out as per guidance.
- Key-man risk.

Annexure

Current Industry Dynamics

Indian sink market growing at 20% and should see similar growth for 5-10 years

- With people spending more time indoors due to the pandemic, there has been a surge in home renovation projects. There has been an increasing adoption of smart kitchens in home renovation due to escalating demand for easy add-ons such as self-regulating dispensers, motion sensing water faucets, and one-touch feature of chillers.
- The pandemic has catalyzed e-commerce penetration by syphoning an exponential online adaptation rate and shift in consumer behavior around the world. As millions of people stayed home, digital platforms have become an important medium for transactions and consumer management.
- Quartz sinks are witnessing strong demand especially from USA, Europe and UK. In USA/Europe/UK, Quartz used to be ~15%/10%/15% respectively of total kitchen sink industry during CY14-15. However, with growing demand and enhanced acceptance of Quartz Sinks, the share of Quartz in USA/Europe/UK has expanded to 25%/15%/20% respectively in CY21.
- The trend is expected to continue and pick-up in other developing nations which should lead global share of Quartz sinks to expand from average 10-12% currently to ~18-20% over next 4-5 years. Quartz is gaining traction over stainless steel sinks on account of (i) higher durability, (ii) better aesthetic view (iii) easier to clean & (iv) superior quality.
- In comparison to kitchens in Europe and US which see significant investments by homeowners as they are considered an integral part of living rooms, India's kitchen space is still confined and so offers strong growth potential as consumer perception towards kitchen's utility changes. The Indian sink market is growing at about 20% and expected to see similar growth at least for the next 5-10 years.

Industry Overview

- The global market for kitchen sinks was valued at US\$ 3.5-4bn in 2020 and is estimated to witness a CAGR of 4-5% over 2021-2030 thereby reaching US\$ 5.5-6bn by 2030. Europe is the biggest market for kitchen sinks with North America occupying the second place.
- Kitchen sinks are available in stainless steel, cast iron, solid surface, composites, and natural stones. The sinks come with glossy, satin, or anti-scratch finishes. These days, sinks are not just single bowls with a drain tray, but come with two or three bowls, vegetable bowls, strainers, guards, drain kits, faucet, soap dispenser, and even garbage disposer. Some latest entrants have sensors as well.
- Stainless steel kitchen sinks are the most popular form while granite sink demand is growing with increasing product awareness and aggressive marketing by companies who portray the product as a lifestyle accessory rather than a mere kitchen fixture. The adoption of granite sinks in the domestic market has been slow, primarily on account of premium pricing and lack of product awareness.
- Granite/Quartz sinks are currently ~10-12% of global kitchen sink business (was 3% of global kitchen sink 10 yrs. back). The more acceptability for Quartz sinks has come as people in the world have started looking for natural products, stone-based products and quartz-based products. As per Global Market Insights research, the Luxury Plumbing Fixtures Market size is estimated to exceed US\$ 26bn by 2024.
- Granite/Quartz Kitchen Sinks: As per VMR, one of the fast-growing kitchen products is the granite sink. Due to the scratching property of stainless steel, granite sinks are gaining popularity among consumers. Consumers prefer this if they are looking for some elegant look for their kitchens. The granite sinks come with glossy, satin, or anti-scratch finishes. 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). These sinks are not just single bowls with a drain tray, they come with two or three bowls, vegetable bowls, strainers, guards, drain kits, faucet, soap dispenser, and even

garbage disposer. These are expensive than metallic sinks, hence preferred only by rich class consumers and also relatively heavier due to which they require special cabinet preparation for safe installation. The trend of consumers preferring Quartz sinks to Stainless steel sinks has been more prominent in America, Germany, UK and France.

- The kitchen is one of the best aspects of any household and it must be equipped with the latest technology and amenities. Sinks are an essential part of kitchens, as they add both aesthetic and practical value. As per various studies/research, on an average, 60% of the time in a kitchen is spent on the sink, washing, cutting, and preparing food, in general.
- Another contributing factor in the home improvement industry is online sales growth, which allowed customers to continue with their purchases smoothly without facing the need to venture out. ACRY saw an increase in 30-40% of the total orders catalysed by online sales in last 2 years and the growth rate is expected to continue for the foreseeable future.
- Key participants in the kitchen sinks market include ACRY, AGA, Alveus, Astracast, Baekjo, BLANCO, Bonke, Elkay, Franke, JOMOO, Kohler, Moen, Oliveri, OULIN, Primy, Reginox, Schock, SONATA and Teka. In India, ACRY competes with likes of Jyoti India Metal Industries (brand *Nirali Sinks* which claims to be No.1 in India in stainless steel sinks) and Neelkanth sinks (taken over by Tropical Industries International, a subsidiary of Tropical General Investment, a US\$ 500mn Dutch company). Other brands include Anupam, Mayur, Milano, Kaff, Hindware, Futura, Franke and Cera (mainly in stainless steel).
- 2-bowl and 3-bowl sinks are mostly preferred by offices, restaurants, and hotels, as they make cleaning of utensils faster and easier. The demand for multi-bowl sinks was traditionally in commercial places but is now gaining attraction in household kitchens too.
- The expanding global restaurant industry is one of the primary factors driving the kitchen sinks market growth. The restaurant players prefer customized kitchen sinks such as segregated waste storage beneath the sink for easy cleaning and two-bowl sinks for washing vessels and food items. The adoption of the omnichannel sales strategy by restaurant players has increased their overall sales. The growth in sales is expected to increase the demand for these sinks, which, in turn, will drive the growth of the global kitchen sinks market size.
- The concept of open kitchens and increased penetration of online distribution channels in Tier 2+ cities have been driving the growth of the kitchen appliances industry in India. This segment now relies heavily on innovation as new trends continue to capture the market. Large kitchen appliances are attracting traction with products like hobs, chimneys, microwaves and much more. On the back of such demand, this segment is expected to grow at a CAGR of 8.6% between 2019-2025.

Kitchen sink manufacturing & technicalities

- Granite sinks (also called composite quartz sinks) contain 70-80% quartz while the rest is a mixture of ~53 chemicals, including peroxide powder. Quartz is largely procured domestically while other chemical & pigments are imported. Sinks are made from quartz bonded with resin and homogeneously molded by a unique CNC-controlled polymerization process. Due to this, the end product is scratch-resistance, dent-proof, stain and heat resistant. It is also easy to clean and food safe.
- The composite sink plants work 24 hours on a three-shifts basis. Maximum effective utilization can be 90-95% with ~90% customized production.
- Moulds (lifespan: 15 years) are a major part of capital expenditure and mostly imported. Management indicated that only one player supplies moulds to all four companies manufacturing quartz sinks based on German technology. There is no supply constraint, and normally supply takes 2-3 months.
- Mould Cycle: It takes 1.5-2 years for the cycle to mature – from the time the sink is launched to when it reaches the stores and when there are repeat orders for the same model. ACRY has been continuously investing a substantial amount in developing new moulds for export customers.
- ACRY produces a range of sinks, from 6kg to 26kg. The most running model, 24"x18" sink, contributes ~60% to revenues. The company produces sinks with MRPs ranging from Rs 6,500-36,000/sink. Under the *STERNHAGEN* brand, there are sinks costing Rs 100,000 as well.
- Manufacturing of stainless-steel sinks involve placing the stainless steel over a die to get the desired shape. It is preferred because of affordability, durability, versatility and easy maintenance.
- Quadro sinks are made using the traditional method and involve higher involvement of manual skills. The product usually caters to high-end segment.

Types of Sinks based on product type

Sink Type	Product details
Top-mount Sinks	Also known as drop-in sinks, top-mount sinks are bordered with a visible rim that sits right on the countertop. Compared with an under-mount sink, they are easier to install, and therefore replaced if need arises. Because they are no hidden gaps, top-mount sinks are also easier to clean
Under-mount Sinks	The edge of an under-mount sink sits just below the countertop. One may get a little bit more countertop space with that, and it also makes it easier to wipe down contents on the counter into the sink without the visible rim. However, the gap between the sink and countertop, which is usually filled with silicone caulk, sees collection of grime over time. Under mount kitchen sinks are poised to hold significant share propelled by increasing demand from the residential sector. Under mount sinks allow to sweep countertop water and the biggest advantage of these sinks is that there is no lip to catch dirt. Top-mount or drop-in kitchen sinks are easy to install.
Flush-mount Sinks	This type of sink is newer in the market, and as its name suggests, has a rim that is completely flush to the countertop with no gaps, solving the issues concerning both top-mount and under-mount sinks. Most flush-mount sinks are installed with the countertop on site before being brought into the kitchen for installation. Because of how precisely it has to be installed, a flush-mount sink only works with countertop materials like natural stone or quartz.
Integrated Sinks	An integrated sink is crafted from the same material as the countertop. The entire piece is also usually made on site first before being installed in the kitchen. There is virtually

	<p>no seam, giving a seamless effect that looks very clean and modern. Clean-up is also a breeze.</p> <p>The caveat is that they can be expensive. Also, to replace your sink, one will have to change the entire countertop along with it.</p>
Apron-front Sinks	<p>Also known as the farmhouse sink, apron-front sinks are a lovely addition to rustic, country style kitchens. But they are also popular in modern settings and will be the centre of attention in any kitchen thanks to its very visible front.</p> <p>Made usually from fireclay—although they also come in materials like ceramic, cast iron or copper—they will require customization of kitchen base cabinets in order to fit it in. There would also be limited options when there is a need to replace it down the road.</p>

Types of sinks based on base material used

Material used	Product details
Stainless Steel	Hygienic, durable and hardy, but it does require regular cleaning to prevent water spots. It can also scratch and look dull over time. It is better to choose a higher quality stainless steel to reduce vibration and noise when washing up.
Fireclay	A type of ceramic-porcelain material that is fired in a kiln at very high temperatures, making it exceptionally durable, non-porous and resistant to heat. Commonly used to make farmhouse sinks. Expensive, and very heavy so one will need a cabinet that can withstand its weight.
Ceramic	Ceramic sinks are very similar in appearance to fireclay sinks, although they are not as hardy or expensive. They can stain and chip or scratch. On the plus side, they are easy to wipe down after use.
Composite	Composite sinks comprise a blend of materials, usually made from either quartz or granite blended together with acrylic resins. They are usually available in a wider array of colours and can be dense, durable and resistant to stains depending on the technology.

Types of Sinks based on bowl type

Bowl type	Product details
Single bowl	<p>A single bowl sink helps to cut down on countertop space. For avid chefs who cook with large woks or pans, a single deep sink lets one soak and wash the big-sized wares easily.</p> <p>Single bowl is predicted to account for a decent market share by 2027. This is designed with just one bowl and drain, which provide great option when there is not ample space. While a double sink needs to be large enough to accommodate two bowls, dual basins allow for washing on one side and rinsing or drying on the other side. (Source)</p>
Two bowls of equal sizes	<p>These sinks are usually relatively large and use up plenty of countertop space. Preferred for handwashing of dishes over using the dishwasher.</p> <p>It's also a good option if two people are working in the kitchen at the same time.</p> <p>Kitchen sinks can go for as small as 45cm to as large as 90cm. (Source)</p>

Company Snapshot

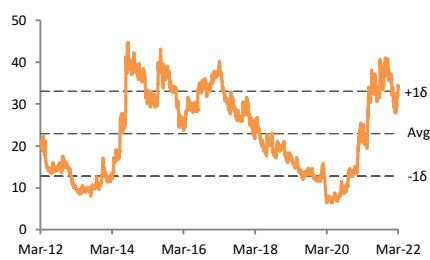
How we differ from consensus: The stock does not have much active coverage.

Key Estimates

Key Assumptions	FY21	FY22E	FY23E	FY24E
Net Sales (Rs Mn)	3,097	4,862	6,418	7,830
YoY growth (%)	12%	57%	32%	22%
EBITDA (Rs Mn)	658	1,057	1,348	1,644
YoY growth (%)	42%	61%	27%	22%
PAT (Rs Mn)	393	669	815	1,040
YoY growth (%)	72%	70%	22%	28%

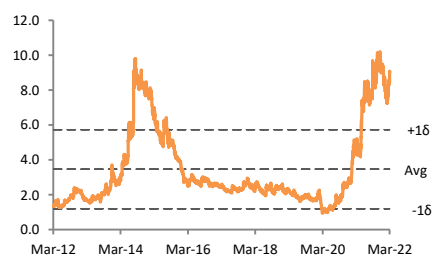
Comparable valuation: There are no listed peers with comparable business segment.

Price to earning chart



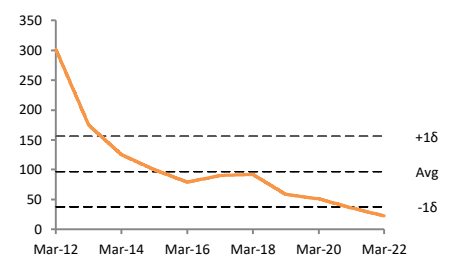
Source: Company, Equirus Research

Price to book chart



Source: Company, Equirus Research

EV-EBITDA chart



Source: Company, Equirus Research

Quarterly performance

Y/E Mar (Rs mn)	1QFY21A	2QFY21A	3QFY21A	4QFY21A	1QFY22A	2QFY22A	3QFY22A	4QFY22E
Revenue	460	756	875	1,006	975	1,194	1,280	1,413
COGS	214	366	387	450	436	535	542	634
Employee Cost	42	50	60	69	67	89	82	102
Other Expenses	105	185	225	283	260	311	377	371
EBITDA	98	156	202	204	212	260	280	306
Depreciation	28	29	32	38	36	44	47	50
EBIT	70	127	170	166	176	216	232	256
Interest Exp.	19	17	16	21	19	20	23	24
Other Income	10	18	4	48	27	29	22	24
Profit before Tax	61	128	158	193	184	225	232	255
Tax Expenses	15	33	36	62	49	46	58	71
Profit After Tax	47	95	122	132	135	178	174	185
Minority Interest	0	(1)	(1)	(1)	(1)	(1)	(1)	0
Profit/(Loss) from Associates	0	0	0	0	0	0	0	0
Recurring PAT	47	94	121	131	135	177	173	185
Exceptional Items	0	0	0	0	0	0	0	0
Reported PAT	47	94	121	131	135	177	173	185
Other comprehensive income.	0	0	0	0	0	0	0	0
PAT after comp. income.	47	94	121	131	135	177	173	185
FDEPS	1.7	3.5	4.5	4.9	5.0	6.6	6.5	6.9
Cost items as % of sales								
RM expenses	46.6	48.3	44.2	44.7	44.7	44.8	42.3	44.9
Employee expenses	9.2	6.6	6.9	6.9	6.9	7.4	6.4	7.3
Other expenses	22.9	24.5	25.8	28.1	26.6	26.0	29.4	26.2
Margin (%)								
Gross Margin	53.4	51.7	55.8	55.3	55.3	55.2	57.7	55.1
EBITDA Margin	21.2	20.6	23.1	20.2	21.8	21.8	21.8	21.6
PAT Margin	10.1	12.5	13.9	13.0	13.8	14.8	13.5	13.1
YoY Growth (%)								
Sales	(32.4)	7.0	19.5	56.4	112.2	57.9	46.3	40.4
EBITDA	(20.3)	27.5	63.6	111.1	117.4	66.9	38.4	50.3
EBIT	(28.9)	38.8	79.7	170.8	152.1	70.3	36.8	54.2
PAT	(19.6)	68.7	76.4	234.0	189.1	88.1	42.7	41.0

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,965	2,516	2,762	3,097	4,862	6,418	7,830
COGS	826	1,293	1,374	1,418	2,147	2,920	3,563
Employee Cost	171	185	222	222	340	481	619
Other Expenses	710	634	703	799	1,318	1,669	2,005
EBITDA	257	405	464	658	1,057	1,348	1,644
Depreciation	71	86	119	127	177	225	239
EBIT	186	318	345	531	880	1,123	1,406
Interest Exp.	63	97	87	73	86	109	93
Other Income	46	21	47	80	102	81	83
Profit before Tax	169	242	305	538	896	1,094	1,396
Tax Expenses	46	67	76	145	224	279	356
Profit After Tax	123	175	229	393	672	815	1,040
Minority Interest	(3)	0	0	0	(3)	0	0
Profit/(Loss) from Associates	0	0	0	0	0	0	0
Recurring PAT	120	175	229	393	669	815	1,040
Exceptional Items	0	0	0	0	0	0	0
Reported PAT	120	175	229	393	669	815	1,040
Other comprehensive income.	0	0	0	0	0	0	0
PAT after comp. income.	120	175	229	393	669	815	1,040
FDEPS	4.5	6.6	8.6	14.7	25.1	30.5	39.0
DPS	1	1	1	2	2	3	4
BVPS	44	51	59	72	95	122	157

YoY Growth (%)	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	8.6	28.1	9.8	12.1	57.0	32.0	22.0
EBITDA	(1.1)	57.4	14.8	41.7	60.7	27.5	22.0
EBIT	(8.6)	71.4	8.4	54.0	65.6	27.6	25.2
PAT	66.1	46.1	30.6	72.0	70.1	21.8	27.6

Key Ratios

Profitability (%)	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Gross Margin	58.0	48.6	50.3	54.2	55.8	54.5	54.5
EBITDA Margin	13.1	16.1	16.8	21.2	21.7	21.0	21.0
PAT Margin	6.1	7.0	8.3	12.7	13.8	12.7	13.3
ROE	10.4	13.8	15.6	22.5	30.1	28.1	27.9
ROIC	8.1	10.9	11.8	15.7	21.4	21.2	22.1
Core ROIC	7.3	11.0	10.8	14.4	20.3	21.0	22.7
Dividend Payout	0.0	0.0	0.0	0.0	8.0	9.8	10.3

CAGR (%)	1 year	2 years	3 years	5 years	7 years	10 years
Revenue	12.1	11.0	16.4	12.2	16.5	18.8
EBITDA	41.7	27.5	36.8	17.5	19.8	20.0
PAT	72.0	49.8	48.6	29.2	26.1	22.6

Valuation (x)	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
P/E	190.8	130.6	100.0	58.1	34.2	28.1	22.0
P/B	19.3	17.0	14.5	11.9	9.0	7.0	5.4
P/FCFF	577.5	6.4	5.0	5.4	4.5	5.7	2.6
EV/EBITDA	91.9	58.6	51.3	36.0	22.6	17.6	14.3
EV/Sales	12.0	9.4	8.6	7.6	4.9	3.7	3.0
Dividend Yield (%)	0.1	0.1	0.1	0.2	0.2	0.4	0.5

Balance Sheet

Y/E Mar (Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Equity Capital	52	52	53	53	53	53	53
Reserves	1,131	1,297	1,525	1,862	2,478	3,213	4,146
Net Worth	1,183	1,349	1,578	1,915	2,531	3,266	4,200
Total Debt	916	969	1,002	1,014	1,149	1,229	1,079
Other long term liabilities	27	29	30	92	109	109	109
Minority Interest	13	16	24	26	29	29	29
Account Payables	379	312	290	418	706	932	1,094
Other Current Liabilities	80	232	321	448	695	917	1,119
Total Liabilities	2,598	2,906	3,245	3,912	5,219	6,482	7,629
Gross Fixed Assets	1,382	1,550	1,719	2,107	2,607	3,257	3,657
Acc. Depreciation	(505)	(591)	(710)	(827)	(1,004)	(1,229)	(1,468)
Net Fixed Assets	877	960	1,009	1,281	1,603	2,028	2,190
Capital WIP	21	35	91	100	226	0	0
long term investments	0	0	0	0	0	0	0
Others	42	37	49	84	124	124	124
Inventory	482	537	597	546	813	1,073	1,287
Receivables	481	543	623	830	1,132	1,460	1,738
Loans and advances	1	1	1	1	3	4	4
Other current assets	289	419	561	630	912	1,239	1,533
Cash & Cash Equivalents.	170	140	75	201	168	317	515
Total Assets	2,598	2,906	3,245	3,912	5,219	6,482	7,629
Non-Cash WC	794	956	1,171	1,142	1,459	1,926	2,349
Cash Conv. Cycle	135.5	120.5	147.7	141.6	93.6	89.1	91.6
WC Turnover	2.5	2.6	2.4	2.7	3.3	3.3	3.3
Gross Asset Turnover	1.4	1.6	1.6	1.5	1.9	2.0	2.1
Net Asset Turnover	2.2	2.5	2.5	2.2	2.7	3.2	3.6
Net D/E	0.6	0.6	0.6	0.4	0.4	0.3	0.1

Days (x)	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Receivable Days	80	74	77	86	74	74	75
Inventory Days	197	144	151	147	115	118	121
Payable Days	142	98	80	91	96	102	104
Non-cash WC days	148	139	155	135	110	110	110

Cash Flow

Y/E Mar (Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Profit Before Tax	169	175	229	393	669	815	1,040
Depreciation	71	86	119	127	177	225	239
Others	32	(87)	(119)	(127)	0	0	0
Tax paid	(59)	(82)	(74)	(124)	(224)	(279)	(356)
Change in WC	(57)	144	147	185	(317)	(467)	(424)
Operating Cashflow	156	237	301	454	306	295	499
Capex	(195)	(183)	(195)	(359)	(500)	(650)	(400)
Change in Invest.	(14)	0	(4)	0	0	0	0
Others	10	11	5	12	319	425	161
Investing Cashflow	(200)	(172)	(195)	(348)	(181)	(225)	(239)
Change in Debt	86	37	(27)	50	135	80	(150)
Change in Equity	0	21	62	0	0	0	0
Others	(90)	(100)	(133)	(138)	174	199	249
Financing Cashflow	(4)	(43)	(99)	(88)	309	279	99
Net Change in Cash	(48)	22	8	18	434	348	360

Source: Company, Equirus Research

<p>Rating & Coverage Definitions:</p> <p>Absolute Rating</p> <ul style="list-style-type: none"> LONG : Over the investment horizon, ATR \geq Ke for companies with Free Float market cap $>$Rs 5 billion and ATR \geq 20% for rest of the companies ADD: ATR \geq 5% but less than Ke over investment horizon REDUCE: ATR \geq negative 10% but $<$5% over investment horizon SHORT: ATR $<$ negative 10% over investment horizon <p>Relative Rating</p> <ul style="list-style-type: none"> OVERWEIGHT: Likely to outperform the benchmark by at least 5% over investment horizon BENCHMARK: likely to perform in line with the benchmark UNDERWEIGHT: likely to under-perform the benchmark by at least 5% over investment horizon <p>Investment Horizon</p> <p>Investment Horizon is set at a minimum 3 months to maximum 18 months with target date falling on last day of a calendar quarter.</p>	<p>Registered Office: Equirus Securities Private Limited Unit No. A21 02B, 21st Floor, A Wing, Marathon Futurex, N M Joshi Marg, Lower Parel, Mumbai-400013. Tel. No: +91 - (0)22 - 4332 0600 Fax No: +91 - (0)22 - 4332 0601</p> <p>Corporate Office: 3rd floor, House No. 9, Magnet Corporate Park, Near Zydus Hospital, B/H Intas Sola Bridge, S.G. Highway Ahmedabad-380054 Gujarat Tel. No: +91 (0)79 - 6190 9550 Fax No: +91 (0)79 - 6190 9560</p>
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Disclosure of Interest statement for the subject Company	Yes/No	If Yes, nature of such interest
Research Analyst' or Relatives' financial interest	No	
Research Analyst' or Relatives' actual/beneficial ownership of 1% or more	No	
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