

# Initiating Coverage Tarsons Products Ltd.

January 6, 2022





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Healthcare	Rs 637	Buy in Rs 635-645 band & add more on dips to Rs 560-575 band	Rs 724	Rs 809	4-6 quarters

HDFC Scrip Code	TARSONSPRO
BSE Code	543399
NSE Code	TARSONS
Bloomberg	TARSONS IN
CMP Jan 5, 2022	636.7
Equity Capital (Rs cr)	10.6
Face Value (Rs)	2
Equity Share O/S (cr)	5.3
Market Cap (Rs cr)	3393
Book Value (Rs)	48.5
Avg. 52 Wk Volumes	19,60,000
52 Week High (Rs)	924.9
52 Week Low (Rs)	581.5

Share holding Pattern % (Nov, 2021)	
Promoters	47.3
Institutions	13.3
Non Institutions	39.4
Total	100.0



HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

\* Refer at the end for explanation on Risk Ratings

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### Our Take:

Tarsons Products Ltd. (TPL) is among the leading companies to manufacture and supply laboratory plastic ware products. There has been an increasing trend of using plastic ware in laboratories given that it is superior in terms of shelf life, handling, and safety benefits. Plastic labware products are expected to grow at CAGR of 10.5% over 2020-2025 as compared to overall 4.9% growth in labware products, thereby increasing its share to 67% from 52% currently.

TPL is expanding its footprint both in the domestic market as well as overseas markets. Increasing tariffs levied by US and tightening of environmental protection norms on Chinese goods are also benefitting companies like TPL as India is proving to be a cost-effective alternative to China. The company has proven its mettle as it manufactures for many private US and European labels while selling under its own brand in Middle East, Asia and Africa regions. It possesses healthy margins with strong return ratios and likely to be debt free in couple of years.

TPL raised Rs 150cr through an IPO (fresh issue component – apart from OFS of Rs 874cr) in Nov-2021 @Rs 662 and would utilise the proceeds for repayment of borrowings and expanding its facilities to increase its product portfolio.

### Financial Summary

Particulars (Rs cr)	Q1FY22 (C)	Q1FY21 (S)	YoY (%)	FY21	FY22E	FY23E	FY24E
Operating Income	69	42	64.6	229	298	351	425
EBITDA	37	12	218.5	103	158	186	231
APAT	25	7	256.4	69	108	127	159
Diluted EPS (Rs)	4.9	1.4	252.2	13.7	20.3	23.9	29.9
RoE (%)				31.2	29.0	22.7	23.2
P/E (x)				46.5	31.3	26.7	21.3
EV/EBITDA (x)				33.0	20.6	17.2	13.5

Q2FY22 results of the company would be declared alongwith Q3FY22 results

(Source: Company, HDFC sec)



### Valuation & Recommendation:

TPL is a unique player in an industry dominated by MNCs which largely import and sell their products. There are high entry barriers and forging strong relationships with distributors/ultimate users is key to business growth. Due to the unique business model, TPL has high gross and net margins. We expect TPL’s revenue/EBITDA/PAT to grow at 23/31/32% CAGR over FY21-FY24, led by increasing demand and expand footprint in domestic and global markets. TPL could be a long-term compounding story if its plans work out in the expected manner over FY23-FY25. We believe investors can buy the stock in Rs 635-645 band and add on dips to Rs 560-575 band (20x Dec-23E EPS) for a base case fair value of Rs 724 (25.5x Dec-23E EPS) and bull case fair value of Rs 809 (28.5x Dec-23E EPS) over the next 4-6 quarters.

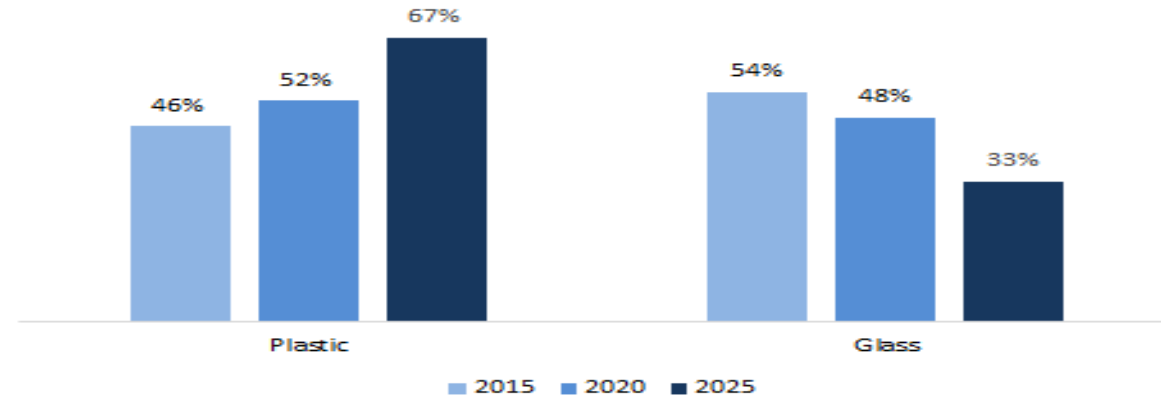
### Key Triggers

#### **Gaining preference for plastic labware in a large addressable market**

Advancements in the field of scientific research is driving a rapid growth in the life sciences industry. Laboratories have emerged as multipurpose research facilities that host several types of testing mechanisms, novel developments, and research analogies. Consequently, the global demand for lab equipment is increasing with the increase in research. According to Frost & Sullivan Report, the global laboratory equipment market is expected to register a growth of 4.9% CAGR from 2020-2025 to reach \$20.5bn from \$16.2bn in 2020.

Plastic labware is expected to grow at a faster rate given that it is superior in terms of shelf life, handling, and safety benefits. According to the report, global plastic laboratory products market is expected to grow at a higher CAGR of ~10.5% to reach \$13.8bn by FY25. The market share of plastic labware is likely to increase from 52% to 67%.

#### *Increasing preference for plastic labware products*



(Source: Frost & Sullivan, HDFCsec)



With increased investments by the Government of India in pharmaceuticals and biotech R&D, the research ecosystem in India presents a significant opportunity for labware market in the near future, which in turn will open multiple avenues for export of labware products from India. TPL, with an established manufacturing base and clients is likely to benefit from the increased demand.

### **Increasing product portfolio and strengthening foothold in domestic market**

Labware product market in India has grown significantly in recent time due to increasing incidences of acute and chronic diseases, rising need for timely and accurate disease diagnosis, growing healthcare sector, and a rise in investments in the pharmaceutical and biotechnology sectors for R&D activities. The Government has also increased investment in biotechnology research. It has plans to set up nine biosafety level-3 laboratories through Pradhan Mantri Aatmanirbhar Swasth Bharat Yojana. This provides TPL with an opportunity to increase sales and expand its customer base. Plastic labware product size is expected to increase at 16% CAGR to Rs 2,575cr by FY25 in India.

TPL is looking to launch new products in the labware market with varied applications across industries and continues to improve process and cost efficiencies in operations. It has plans to enter PCR products and Cell Culture market (estimated to be \$3.8bn globally) by Q1FY24. The price of pipette tips, used to collect and transfer precision quantity of liquids during the research and then discard, have tripled over the past year. TPL is looking to add a serological pipette manufacturing facility. These measures would enable it to increase its prominence in the labware industry, gain market share and strengthen the brand of 'Tarsons'.

Historically, global multinational companies like Thermo Fischer, Corning, Eppendorf, Mettler-Toledo, Avantor, etc. have dominated the Indian labware/ life sciences equipment market. These companies mostly import products and sell in the domestic market. TPL provides comparable quality of products as manufactured by the MNCs at competitive prices and has managed to substitute imports and gain market share in domestic markets.

The company's products can primarily be divided into three main categories: (i) Consumables; (ii) Reusables; and (iii) Others.

Consumables product category include: (i) centrifuge ware, (ii) cryogenic ware (tubes and accessories), (iii) liquid handling, (iv) PCR consumables (tubes, plates, and strips), (v) petri dish, (vi) transfer pipettes and (vii) other items.

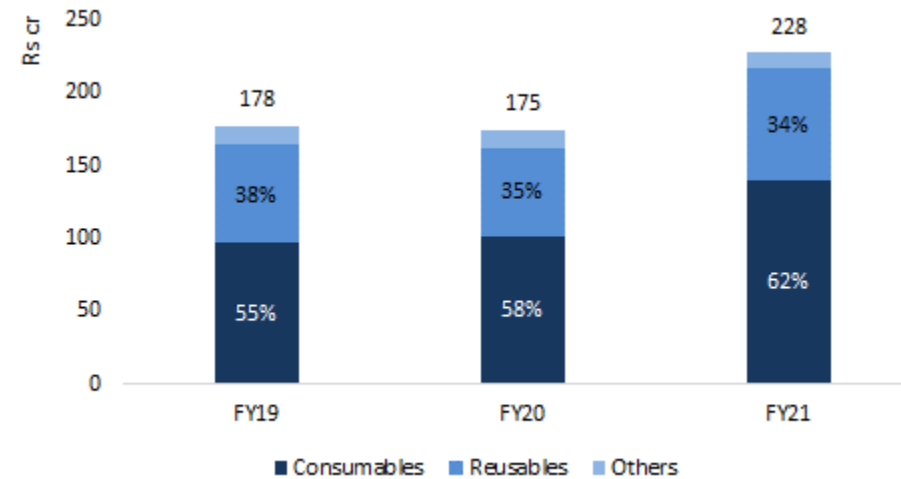
Reusables products include: (i) bottles and carboys; (ii) beakers; (iii) measuring cylinders; (iv) tube racks; and (v) other items (such as jars, desiccators and universal rack holders).

Others category which includes benchtop instrumentation such as (i) vortex shakers; (ii) centrifuges; and (iii) pipettors

The share of consumables has been increasing and TPL intends to increase it to 70% of total revenues.



### Increasing share of consumable products



(Source: Company, HDFCsec)

The company has recently acquired five acres of land to develop a new manufacturing facility in Panchla, West Bengal to expand capacities in popular product categories and launch new products. The facility would be of 1.2 lakh sq.ft. and at full utilisation could provide revenues of ~Rs 270cr. It also intends to develop a new fulfilment centre in Amta, West Bengal at par with global standards which will enable it to consolidate the existing warehouse operations. TPL also aims for backward integration in the manufacturing process through building of an inhouse sterilization centre at Amta for captive consumption for which it has already acquired ~3 acres of land out of the proposed 6 acres.

### Expanding global footprint

International business has been a key contributor to the topline growth of TPL in the last few years. In FY21 exports accounted for ~33% of total sales. Due to increasing tariffs levied by US and tightening of environmental protection norms on Chinese goods, India is proving to be a cost-effective manufacturing alternative and domestic Indian players are expected to gain share over time. TPL is evaluating additional locations within the regions it currently operates in, as well as other regions for expanding sales and distribution network. It already has strong relationships with distributors which it intends to expand further to increase its customer base. It intends to form a dedicated team whose primary focus will be on exports to overseas markets with specific focus on certain geographies.



### Established pan India sales and distribution network

TPL has an established pan India sales and distribution network that enables it to cater to a wide range of end customers, thereby ensuring effective penetration of its diverse range of products. As of Q1FY22, the distribution network comprises of over 141 authorised distributors most of whom have been associated with TPL for more than two decades.

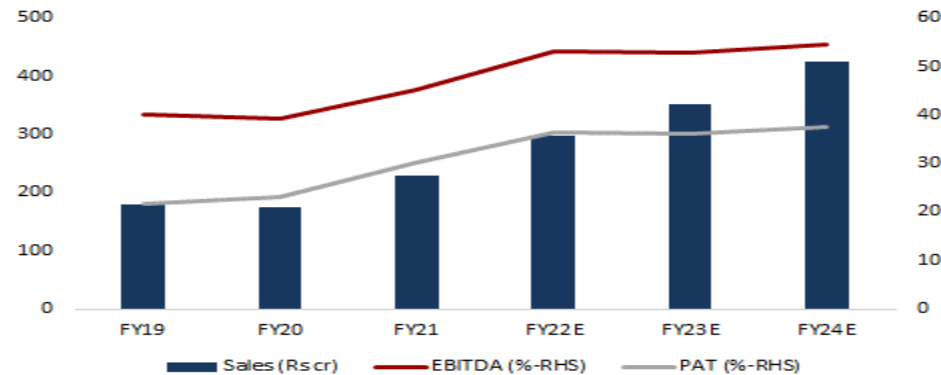
Additionally, the company has a presence in the overseas market as well, making it one of the few Indian players to have a global reach in the labware market. TPL sells products under its own brand name in Asia Pacific, Middle East and Latin America while for USA and Europe region it has entered into strategic partnerships as ODM (Original Design Manufacturer) sales. Globally, it has 55-60 authorised distributors and its products are sold in 40 countries. Export sales accounted for 33% of its revenue for FY21.

The China+1 strategy is helping the company as due to the increasing tariffs levied by USA and tightening of environmental protection norms on Chinese goods over the past years many overseas importers are looking at Indian manufacturers for supplying cost-effective and quality products. Share of company's own brand is increasing and over the next 5-7 years TPL targets to have ~60% of its overseas sales under its own brand from 40-45% currently and overall to 50:50 from 38:62.

### Healthy margins

Sales have been witnessing improvement over the last few years and likely to continue on its strong growth path. The EBITDA and PAT margin are expected to improve and stabilise ~53-54% and ~36-37% respectively driven by the increase in demand for products like filter tips required for Covid testing. We expect the company to grow PAT at CAGR of 32% over FY21-FY24. Return ratios have also been strong and we expect TPL to report 23/31% RoE/RoCE in FY24.

### Margins to improve



(Source: Company, HDFCsec)



### **Wide product portfolio with established brand in the domestic market and strong distribution network**

TPL manufactures a wide range of products (around 1700 SKU and 300 products) comprising consumables, re-usable and scientific instruments. The major customers for these products include scientific research organisations, contract research organisations, hospitals, diagnostic centres, education institutions, R & D centres of various industries, etc. TPL has been successful in building a strong distribution network for marketing its products. It sells its products under the brand, 'Tarsons' which is well accepted in the market.

### **Growth potential for the plastic laboratory ware industry**

The ongoing pandemic has called for increased focus on healthcare worldwide and higher government spending on research. This increased focus on R&D in the country both by the Government and the private sector, the growth of Contract Research and Manufacturing Services (CRAMS) in India, outsourcing of R&D services in India and untapped opportunity in the international market shall bode well for domestic laboratory ware manufacturers like TPL. However, the industry is fragmented in nature and TPL continues to face competition from international and domestic players for its various products.

### **Risks & Concerns**

#### **Moderate scale of operations**

TPL remains a relatively smaller player in the plastic laboratory ware products industry with net sales of Rs 229cr in FY21. However, the scale of operations could rise sharply over the next few years as new capacities go on stream.

#### **Long working capital cycle**

The operation of the company is working capital intensive in nature. The working capital cycle (excluding cash) remains high at ~160 days mainly on account of high average inventory period along with low credit period from suppliers. Inventory period is high mainly due to stock maintained for large number of products sold by the company and it needs to maintain raw material inventory given the lead time in procurement from abroad.

#### **Project risk and continuous capex requirement in the industry**

The players in the industry, to increase market share and remain competitive, have to continuously make product innovations and introduce new products which require capex. TPL has planned large capex projects aggregating to around Rs 160cr mainly for setting up a radiation plant and capacity expansion for various products to be completed by FY23. Timely completion of the projects and deriving the envisaged benefits remain crucial.



### **Susceptibility to fluctuation in raw material prices and forex rates**

Plastic granule/resins (high-quality medical grade DMF registered resins) is the primary raw material required for manufacturing plastic laboratory products. Majority of raw materials (~80%) are imported. Although TPL does not face any difficulty in procurement of raw materials and increases the prices of its products but with a short time lag, lack of any long-term contract with the suppliers exposes it to the risk of volatility in raw material prices and forex rates.

### **Covid related boost**

In FY21, ~30% of the revenue was on account of Covid related sales as the sales to pharma, diagnostic, research, etc. companies declined. Post the pandemic, overall sales could be impacted if other product sales do not compensate.

### **Stake sale by PE Investor**

The PE Investor, Clear Vision Investments, sold 1.25cr shares through 'offer for sale' and still holds 23.4% stake in the company. Sale by the investor in future could put pressure on the company's market price.

### **No dividend declared**

TPL has not paid out any dividend so far and may not do so for FY22.

### **Company Background:**

Tarsons is a leader in India in the production and supply of laboratory plastic ware with more than three decades of experience. TPL is one of the leading Indian labware companies engaged in the design, development, manufacturing and marketing of consumables, reusables and others (including benchtop equipment & instruments). Its products are used by laboratories engaged in molecular biology, cell culture, genomics, proteomics and immunology. The company has a diversified product portfolio with over 1,700 SKUs across 300 products.

The company's products are made from high-quality medical grade DMF registered resins which are selected to minimize additives & reduce potential leachables. TPL's product range includes disposable plastic labware, centrifuge ware, cryo labware, liquid handling system and instruments. The company possesses the expertise in plastic moulding and have a sound knowledge of latest and inventive laboratory techniques.

TPL currently operates 5 integrated manufacturing facilities in West Bengal with plans of adding a new facility in Panchla, West Bengal along with a new fulfilment centre (with in-house sterilization capability) in Amta, West Bengal. TPL has a pan-India distribution network with long-standing relationships with its key distributors and is one of the few players in India to have a global reach in the labware market with products being supplied to over 40 countries.

In July-2018, private equity investor Clear Vision Investments purchased 49% of the company for a consideration of Rs 129.3cr





## Financials

### Income Statement

(Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>176</b>	<b>229</b>	<b>298</b>	<b>351</b>	<b>425</b>
<b>Growth (%)</b>	<b>-1.6</b>	<b>30.1</b>	<b>30.0</b>	<b>18.0</b>	<b>21.0</b>
Operating Expenses	107	125	140	165	194
<b>EBITDA</b>	<b>69</b>	<b>103</b>	<b>158</b>	<b>186</b>	<b>231</b>
<b>Growth (%)</b>	<b>-3.4</b>	<b>49.4</b>	<b>52.5</b>	<b>17.8</b>	<b>24.4</b>
<b>EBITDA Margin (%)</b>	<b>39.4</b>	<b>45.2</b>	<b>53.0</b>	<b>52.9</b>	<b>54.4</b>
Depreciation	14	14	20	24	28
Other Income	4	5	9	11	14
<b>EBIT</b>	<b>59</b>	<b>95</b>	<b>147</b>	<b>173</b>	<b>217</b>
Interest expenses	6	3	2	3	4
<b>PBT</b>	<b>53</b>	<b>92</b>	<b>145</b>	<b>170</b>	<b>213</b>
Tax	13	24	37	43	54
<b>PAT</b>	<b>41</b>	<b>69</b>	<b>108</b>	<b>127</b>	<b>159</b>
Share of Asso./Minority Int.	0	0	0	0	0
<b>Adj. PAT</b>	<b>41</b>	<b>69</b>	<b>108</b>	<b>127</b>	<b>159</b>
<b>Growth (%)</b>	<b>4.0</b>	<b>69.9</b>	<b>56.9</b>	<b>17.4</b>	<b>25.3</b>
EPS	7.6	13.7	20.3	23.9	29.9

### Balance Sheet

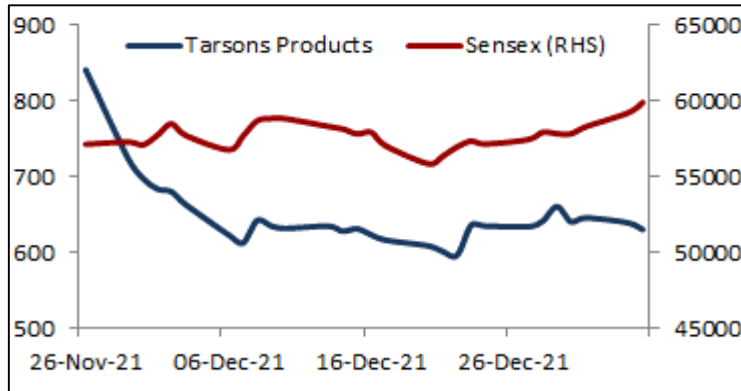
As at March (Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
<b>SOURCE OF FUNDS</b>					
Share Capital	0.2	0.2	11	11	11
Reserves	197	244	492	605	746
<b>Shareholders' Funds</b>	<b>198</b>	<b>244</b>	<b>502</b>	<b>616</b>	<b>756</b>
Borrowings	36	33	5	0	0
Net Deferred Taxes	3	3	3	3	3
Other Non-curr. Liab.	2	3	4	5	6
<b>Total Source of Funds</b>	<b>238</b>	<b>284</b>	<b>515</b>	<b>624</b>	<b>766</b>
<b>APPLICATION OF FUNDS</b>					
Net Block & Goodwill	92	120	155	205	220
CWIP	19	22	33	17	8
Investments	0	0	30	50	90
Other Non-Curr. Assets	18	41	53	62	74
<b>Total Non-Current Assets</b>	<b>129</b>	<b>183</b>	<b>271</b>	<b>334</b>	<b>393</b>
Inventories	49	47	61	77	95
Trade Receivables	38	47	61	70	81
Cash & Equivalents	26	3	115	132	183
Other Current Assets	7	16	22	29	35
<b>Total Current Assets</b>	<b>120</b>	<b>113</b>	<b>259</b>	<b>308</b>	<b>395</b>
Trade Payables	6	6	8	10	13
Current Liab & Provisions	5	6	7	8	10
<b>Total Current Liabilities</b>	<b>10</b>	<b>12</b>	<b>15</b>	<b>18</b>	<b>22</b>
Net Current Assets	109	101	244	290	373
<b>Total Application of Funds</b>	<b>238</b>	<b>284</b>	<b>515</b>	<b>624</b>	<b>766</b>



## Cash Flow Statement

(Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
PBT	53	92	145	170	213
Non-operating & EO items	0	0	-11	-9	-11
Interest Expenses	5	2	2	3	4
Depreciation	14	14	20	24	28
Working Capital Change	6	-16	-31	-29	-31
Tax Paid	-15	-24	-37	-43	-54
<b>OPERATING CASH FLOW ( a )</b>	<b>64</b>	<b>68</b>	<b>87</b>	<b>116</b>	<b>148</b>
Capex	-26	-62	-65	-58	-35
Free Cash Flow	38	6	22	58	113
Investments	0	0	-30	-20	-40
Non-operating income	0	-2	0	0	0
<b>INVESTING CASH FLOW ( b )</b>	<b>-26</b>	<b>-64</b>	<b>-95</b>	<b>-78</b>	<b>-75</b>
Debt Issuance / (Repaid)	0	0	-28	-5	0
Interest Expenses	-5	-5	-2	-3	-4
FCFE	34	-1	-38	31	70
Share Capital Issuance	-9	0	150	0	0
Dividend	0	0	0	-13	-19
<b>FINANCING CASH FLOW ( c )</b>	<b>-14</b>	<b>-5</b>	<b>120</b>	<b>-21</b>	<b>-22</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>25</b>	<b>-1</b>	<b>112</b>	<b>17</b>	<b>51</b>

## Price chart



## Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
<b>Profitability Ratios (%)</b>					
EBITDA Margin	39.4	45.2	53.0	52.9	54.4
EBIT Margin	33.7	41.6	49.4	49.2	51.1
APAT Margin	23.0	30.1	36.3	36.1	37.4
RoE	24.4	31.2	29.0	22.7	23.2
RoCE	27.3	37.2	37.5	30.8	31.6
<b>Solvency Ratio (x)</b>					
Net Debt/EBITDA	0.1	0.3	-0.7	-0.7	-0.8
Net D/E	0.0	0.1	-0.2	-0.2	-0.2
<b>PER SHARE DATA (Rs)</b>					
EPS	7.6	13.7	20.3	23.9	29.9
CEPS	10.3	16.4	24.0	28.4	35.2
BV	37.3	48.5	94.5	115.8	142.2
Dividend	0.0	0.0	0.0	2.5	3.5
<b>Turnover Ratios (days)</b>					
Inventory	86	68	66	68	65
Debtor	99	76	66	72	74
Creditors	8	9	8	9	10
<b>VALUATION (x)</b>					
P/E	83.3	46.5	31.3	26.7	21.3
P/BV	17.1	13.1	6.7	5.5	4.5
EV/EBITDA	49.0	33.0	20.6	17.2	13.5
EV/Revenues	19.3	14.9	10.9	9.1	7.3
Dividend Yield (%)	0.0	0.0	0.0	0.4	0.5
Dividend Payout (%)	0.0	0.0	0.0	10.5	11.7

(Source: Company, HDFC sec)



## HDFC Sec Retail Research Rating description

### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

### Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

### Disclosure:

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