

TARSONS PRODUCTS LIMITED



Validation of the Value Migration Theme

We visited Tarsons Products Ltd (TPL) largest facility located at Jangalpur (West Bengal) including its upcoming Panchla facility (2x of existing capacity) on 23rd June, 2023 and met the senior management for an update on its recent expansion and to gauge its growth prospects post our Initiating Coverage on the company [click here](#). TPL is a leading plastic labware manufacturer catering to the lifescience industry with a domestic as well as global presence. Its products are used by key end user markets like Academic/Research Institutes, Pharmaceutical companies & Contract Research Organizations (CROs), Diagnostic Labs/IVF clients etc. The company has a diversified product portfolio with over 1,700 SKUs across 300 products. It has registered a revenue/profit CAGR of 12%/20% in the last five years. It is doubling its capacity to expand its product mix (capex of ₹5.5 bn over FY22–25) and setting up a greenfield project at Panchla & Amta, which will start contributing in H2FY24 and fully ramp up by FY25. This capex may fetch a revenue of 0.8x of the investments (₹4-4.5 bn). **We maintain our positive stance on the stock with a BUY rating and a TP of ₹770.**

Key Takeaways from the Interaction

Aims to achieve supply-side dominance in manufacturing plastic labware products in India

TPL supplies plastic labware products including Pipettes, Centrifuge Tubes, Cryogenic ware, Bottles & Carboys, beakers & Cylinder and other benchtop equipments like vortex shakers, centrifuges, pipettors etc. TPL is one of the Top 3 players in manufacturing plastic labware products except for MNCs like ThermoFisher Scientific other domestic players like Borosil (Scientific Products division), Abdos Lifesciences are not even close to Tarsons capacity and it aims to capture majority of the pie of plastic labware consumables & reusables. The upcoming Panchla facility's large portion of capex (60-70%) is for cell culture related products which is a ₹5 bn market in India and ₹27bn consists of export market. In India Tarsons is the only player to manufacture cell culture related products (MNCs are currently having dominant share in this market). Considering Tarsons brand recall value, strong Pan-India distribution network and low cost & high quality products we believe that it is on path to achieve supply-side dominance in manufacturing critical plastic ware products in India.

Capacity addition and product launches to drive revenue and earnings growth

Tarsons operates five manufacturing facilities spread over 21,000 sq m in West Bengal. The company is expanding its manufacturing capacity for both existing and new products in a phased manner by setting up a new manufacturing facility at Panchla, West Bengal; with this, the manufacturing land area would increase to over ~66,000 sq m (2x of its current capacity). Subsequently, Tarsons would be able to cater to strong demand from both export and domestic markets and foray into the PCR and cell culture space; along with existing products its target addressable market (TAM) is expected to rise to ~₹26.5 bn (₹5 bn is cell culture alone) by FY25 (Indian Plasticware only) & ₹969 bn (Global Plasticware only Market). The company aims to fully commission the Panchla facility by H1FY24 (Civil work is 95% complete waiting for automated machines which could take 4-5 weeks). Furthermore, Tarsons new facility at Amta, West Bengal, for backward integration of in-house sterilisation is expected to be operational by H1FY24 and a new fulfilment centre to coordinate and expand warehouse operations is also on track. Additionally, the upcoming sterilization facility at Amta should give the company an inherent advantage for PCR/Cell culture offerings which is the fastest growing market globally (15.1% CAGR growth expected between 2020-2025) and is expected to constitute ~56% of the global plasticware only market.

Key Dynamics of the Plant

Clean Rooms with Moulding Machines (4 to 5 workers supervising / automated machines) two types of machines- Blow & Injection Moulding machines (Imported from Europe & Japan) > Final products post QC then transferred to Finished Goods room > From Finished Goods room final products are moved to Sterilization facility at Amta and then the final order gets fulfilled.

Profit and Loss Statement

(₹ mn)	FY20	FY21	FY22	FY23	FY 24E	FY 25E
Revenue from Operations	1,759	2,289	3,008	2,832	3,552	4,488
Raw Material Cost	487	615	629	651	749	933
Employee Cost	201	244	314	341	479	592
Other Exp	379	395	538	544	657	817
EBITDA	693	1,034	1,527	1,298	1,666	2,145
<i>EBITDA Margin(%)</i>	<i>39.4%</i>	<i>45.2%</i>	<i>50.8%</i>	<i>45.8%</i>	<i>46.9%</i>	<i>47.8%</i>
Depreciation	142	137	220	285	367	339
EBIT	551	898	1,307	1,013	1,299	1,806
<i>EBIT Margin(%)</i>	<i>31.3%</i>	<i>39.2%</i>	<i>43.5%</i>	<i>35.7%</i>	<i>36.6%</i>	<i>40.2%</i>
Other Income	42	54	85	119	142	180
Interest	61	27	42	45	89	89
PBT	531	924	1,350	1,087	1,352	1,897
<i>PBT Margin(%)</i>	<i>30.2%</i>	<i>40.4%</i>	<i>44.9%</i>	<i>38.4%</i>	<i>38.1%</i>	<i>42.3%</i>
Tax	126	236	343	280	339	484
Adjusted PAT	405	689	1,007	807	1,013	1,413
<i>APAT Margins (%)</i>	<i>23.0%</i>	<i>30.1%</i>	<i>33.5%</i>	<i>28.5%</i>	<i>28.5%</i>	<i>31.5%</i>
Exceptional items	0	0	0	0	0	0
PAT	405	689	1,007	807	1,013	1,413
<i>PAT Margins (%)</i>	<i>23.0%</i>	<i>30.1%</i>	<i>33.5%</i>	<i>28.5%</i>	<i>28.5%</i>	<i>31.5%</i>

Balance Sheet

(₹ mn)	FY 20	FY 21	FY 22	FY 23	FY 24E	FY 25E
Equity and Liabilities						
Equity Share Capital	2	2	106	107	107	107
Reserves & Surplus	1,974	2,441	4,792	5,587	6,599	8,012
Total Networth	1,976	2,443	4,898	5,693	6,706	8,119
Long term Borrowings	59	33	93	807	807	807
Deferred tax liability	32	33	44	54	82	73
Other Non-Current liabilities	16	33	58	74	78	118
Total non-current liab and provs	107	98	195	935	968	998
Current Liabilities						
Short term Borrowings & Provisions	311	317	138	320	336	346
Trade Payables	59	60	130	96	105	149
Other current liabilities	34	41	82	213	355	421
Total current liab and provs	404	418	349	629	797	916
Total Equity & Liabilities	2,487	2,959	5,442	7,257	8,470	10,033
Assets						
Net block	920	1,210	1,888	2,248	3,152	3,983
Capital WIP	193	215	322	1,190	790	290
Other non current assets	175	406	787	1,298	1,554	1,789
Total fixed assets	1,289	1,831	2,997	4,736	5,496	6,062
Inventories	487	467	824	1,144	1,283	1,558
Trade receivables	382	470	652	658	740	898
Cash & Bank Balance	263	31	858	600	726	1,223
Other current assets	67	159	112	119	226	292
Total current Assets	1,198	1,128	2,445	2,520	2,975	3,971
Total Assets	2,487	2,960	5,442	7,257	8,470	10,033

Key Ratios

YE Mar	FY20	FY21	FY22	FY23	FY 24E	FY 25E
Per Share Data (₹)						
Adj. EPS	7.9	13.4	19.5	15.6	19.6	27.3
CEPS	10.7	16.1	23.7	21.1	26.7	33.9
BVPS	38.7	47.6	94.7	110.0	129.6	156.9
Growth Ratios(%)						
Revenue	-1.6%	30.1%	31.4%	-5.8%	25.4%	26.4%
EBITDA	-3.4%	49.4%	47.6%	-15.0%	28.4%	28.8%
EBIT	-3.5%	63.0%	45.6%	-22.6%	28.2%	39.1%
PAT	4.0%	69.9%	46.2%	-19.8%	25.5%	39.5%
Valuation Ratios (X)						
PE	NA	48.0	36.1	38.4	30.6	21.9
P/CEPS	NA	40.1	29.6	28.4	22.5	17.7
P/BV	NA	13.5	7.4	5.4	4.6	3.8
EV/Sales	NA	14.6	11.9	11.1	8.8	6.9
EV/EBITDA	NA	32.3	23.4	24.3	18.8	14.4
Operating Ratios (Days)						
Inventory days	99.7	73.4	98.6	145.4	130.0	125.0
Receivable Days	78.2	74.0	78.0	83.6	75.0	72.0
Payables day	12.1	9.4	15.5	12.3	10.7	12.0
Debt to Equity (x)	0.13	0.09	0.07	0.16	0.17	0.18
Profitability Ratios (%)						
ROCE	26.4%	35.3%	25.7%	15.3%	16.9%	19.8%
ROE	20.5%	28.2%	20.6%	14.2%	15.1%	17.4%

Cash Flow

(₹ mn)	FY 20	FY 21	FY22	FY23	FY 24E	FY 25E
PBT	531	924	1,350	1,087	1,352	1,897
Depreciation	142	137	220	285	367	339
Interest	59	27	42	45	89	89
Other Adjustments	-1	-6	-25	-55	-	-
Operating CF before WC changes	731	1,082	1,587	1,362	1,808	2,325
Changes in working capital	64	-160	-418	-363	-161	-379
Tax paid	-153	-241	-334	-243	-339	-484
Cash flow from operations (a)	642	682	835	756	1,308	1,462
Capital expenditure	-260	-619	-1,320	-1,900	-1,506	-670
Other investing activities	6	-20	-60	114	114	-
Cash flow from investing (b)	-254	-639	-1,379	-1,785	-1,392	-670
Free cash flow (a+b)	388	42	-545	-1,029	-84	792
Proceeds from long term borrowings	-	65	433	1,052	76	-
Repayment of long term borrowings	-114	-133	-330	-151	-	-227
Proceeds from Working Capital demand loan	215	1,480	2,360	89	143	-67
Other financing activities	-239	-1,684	-1,167	-144	-	-
Proceeds from issue of equity shares	-	-	-	-	-	-
Cash flow from financing (c)	-138	-272	1,296	846	219	-294
Net chng in cash (a+b+c)	250	-230	751	-184	135	498
Closing cash & cash equivalents	253	23	774	590	726	1,223

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