

TARSONS PRODUCTS LIMITED

Fully focused on recovery; Gradual ramp up to aid growth!



Tarsons Products (Tarsons) reported its highest ever standalone quarterly revenue of ₹866 mn in Q4FY24, driven by a 12% YoY and 40% QoQ increase in exports. Consolidated revenue, EBITDA and PAT were ₹1,057 mn ₹302 mn and ₹103 mn respectively reflecting YoY changes of +29% -23% and -55%. Sequentially revenue, EBITDA and PAT increased by 71%, 32% and 3% respectively, with a domestic versus export split of 68% and 32%. For FY24, consolidated revenue was ₹2,964 mn aligning with estimates. We expect a swift recovery in margins as industry conditions stabilize. Positive export market developments and the acquisition of Nerbe, projected to contribute mid-double-digit margins (14-15%), are key drivers. Management's strategy to introduce new product categories and expand its customer base remains strong with signs of market recovery and decreasing inventory levels. With the full commissioning of the ₹6 bn capex in FY25, Tarsons is poised for significant operating efficiencies. We maintain our 'BUY' rating with a revised target price of ₹560 (34x FY26E EPS of ₹16.6) down from our earlier estimate of ₹631 owing to a big miss on operating and PAT margins (earlier EBITDA/PAT margin estimates for FY25E/26E were 45%/25% & 45%/34% vs revised FY25E/26E 35%/17% & 37%/22% respectively).

Review of standalone performance

Tarsons reported its highest-ever standalone quarterly revenue of ₹866 mn in Q4FY24, driven by a significant improvement in exports, which increased by 12% YoY and 40% QoQ. Despite the ongoing slowdown in the life science industry and inventory destocking, Tarsons continued to see revenue growth. However, on the operational front, EBITDA was ₹376 mn down 4% YoY but up 48% QoQ. The EBITDA margin dropped by 440 bps to 43% compared to 48% in Q4FY23, primarily due to changes in product mix and higher revenues from Original Design Manufacturer (ODM) sales. The split for Branded and ODM sales stood at 27:73 versus 35:65 for FY24. Standalone Profit After Tax (PAT) was ₹188 mn down 18% YoY from ₹228 mn in Q4FY23 but up 87% QoQ. The PAT margin was 22% in Q4FY24, compared to 28% in Q4FY23, a decrease of 600bps due to a one-time inventory provision of ₹37 mn. As of FY24 inventories stand at ₹1,053 mn.

Consolidated (including recent acquisition Nerbe's financials) performance

Tarsons Products reported consolidated Revenue, EBITDA and PAT of ₹1,057 mn, ₹302 mn and ₹103 mn representing YoY changes of +29%, -23% and -55% respectively. However, on a sequential basis the company showed some recovery with Revenue, EBITDA and PAT increasing by 71%, 32% and 3% respectively driven by improvements in both the export and domestic businesses.

Key Financials	FY 21	FY 22	FY 23	FY 24	FY 25E	FY 26E
Total Income (₹ mn)	2,289	3,008	2,832	2,964	3,346	3,914
EBITDA margins (%)	45.2%	50.8%	45.8%	33.7%	35.0%	36.8%
PAT margins (%)	30.1%	33.5%	28.5%	14.4%	17.1%	21.9%
EPS (₹)	13.4	19.5	15.6	8.2	11.0	16.6
P/E (x)	48.0	36.1	33.1	50.2	37.5	25.0
P/BV (x)	13.5	7.4	4.7	3.5	3.2	2.8
EV/EBITDA (x)	32.3	23.4	21.0	23.8	19.4	15.6
ROE (%)	28.2%	20.6%	14.2%	7.0%	8.5%	11.3%
ROCE (%)	35.3%	25.7%	15.3%	7.8%	9.2%	12.5%

Rating	BUY
Current Market Price (₹)	414
12 M Price Target (₹)	560
Potential upside (%)	35

Stock Data

Basic Industry :	Medical Equipment & Supplies
FV (₹) :	2
Total Market Cap (₹ bn) :	22
Free Float Market Cap (₹ bn) :	6
52-Week High / Low (₹) :	646 / 390
Sensex / Nifty :	73,961 / 22,531
BSE Code / NSE Symbol :	543399 / TARSONS
Bloomberg :	TARSONS:IN

Shareholding Pattern

(%)	Mar-24	Dec-23	Sep-23	Jun-23
Promoter	47.31	47.31	47.31	47.31
Clear Vision	23.42	23.42	23.42	23.42
FPIs	8.16	6.83	7.85	8.64
MFs	0.04	2.15	2.45	6.68
Bodies Corp.	6.19	5.92	5.61	0.94
Others	14.88	14.37	13.36	13.01

Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Tarsons	-9.8%	-11.4%	-8.7%	-27.5%
Nifty 50	-0.3%	2.5%	11.9%	21.9%

* To date / current date : May 31, 2024

Tarsons vs Nifty 50



The domestic versus export split from its standalone business was 68% and 32% respectively, showing growth of 2% and 12% YoY (Domestic/Export-₹590/₹280 mn in Q4FY24 vs ₹580/₹250 mn in Q4FY23). Operating profit fell nearly 23% during the quarter due to certain one-time expenses amounting to ₹56 mn incurred in the Singapore subsidiary for acquisition related costs. Gross EBITDA and PAT margins were 69%, 29% and 10% in Q4FY24 compared to 75%, 48% and 28% in Q4FY23. This decline was due to the consolidation impact of Nerbe's operating margins which were around 10% the one-off expenses of ₹56 mn in the Singapore subsidiary and the knock-off of ₹31 mn in interest income and guarantee commission on a loan given to the Singapore subsidiary during consolidation. Tarsons board announced final dividend of ₹ 2/- per share on fully paid-up equity for FY24.

FY24: A forgettable year for the company but acquisition of Nerbe a key takeaway

For the Full Year FY24, Tarsons reported consolidated revenue of ₹2,964 mn which aligned closely with our estimates of ₹2,950 mn representing a modest 0.5% quarter-on-quarter increase. Despite achieving revenue targets the company faced challenges in maintaining its high operating and profit margins, resulting in an overall disappointing performance for FY24. This decline in margins was primarily attributed to a shift in product mix and several one-off expenses. We anticipate a swift recovery in margins once industry conditions stabilize. Positive developments in the export market are expected to be significant drivers of both earnings and margin improvement for the company. Furthermore, Tarsons recent acquisition of Nerbe is projected to contribute positively with expected margins in the mid-double-digit range (14-15%) moving forward. We remain optimistic that the company's strategic initiatives including expanding its export business and integrating Nerbe's operations will enhance its financial performance and support sustained growth in the coming years.

Quarterly performance

(₹ mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Sales	1,057	821	29%	618	71%
Raw Material	163	189	-13%	153	7%
Employee Cost	156	86	81%	98	59%
Other expenses	435	153	184%	138	216%
Total Operating expenses	755	428	76%	389	94%
EBITDA	302	393	-23%	229	32%
EBITDA Margin (%)	29%	48%	(1900) bps	37%	(850) bps
Depreciation	123	83	49%	83	49%
EBIT	179	310	-42%	146	23%
Other Income	34	22	55%	23	49%
Interest	43	21	106%	24	77%
Exceptional items	-	-	-	-	-
Profit Before Tax	170	311	-45%	144	18%
Tax	67	83	-19%	33	107%
Tax rate (%)	39%	27%	1200 bps	23%	1400 bps
Profit after tax	103	228	-55%	112	-8%
PAT Margin (%)	10%	28%	(1800) bps	18%	(550) bps
EPS (₹)	1.9	8.0	-76%	4.3	-55%

Source: Company, LKP Research

Seems like the worst is behind for Tarsons; All eyes on recovery now

The management of Tarsons reiterated their strategy of introducing new product categories and expanding their customer base to maintain competitiveness and stay ahead in the industry, emphasizing that the long-term outlook remains resilient. They believe the worst may be behind them as the market shows signs of recovery and inventory levels decrease. However, the geopolitical situation remains unstable, impacting logistics and supply chain smoothness, which has yet to return to pre-COVID levels. Incoming and outgoing shipments continue to face disruptions due to these geopolitical issues, though demand levels appear better compared to a few quarters ago.

In the near term, Tarsons continues to face demand headwinds, particularly in its consumables business, which is experiencing a downturn. The plastic labware market has suffered an 8-10% de-growth at the industry level. Nonetheless, in the long term, the company expects demand for labware products to gradually pick up from Q2FY25 onwards. This anticipated recovery will be supported by contributions from the upcoming Panchla facility, which is expected to commence operations in Q4FY25, and the Amta facility, which will start operations in Q3FY25 as a warehouse and in-house sterilization center for captive consumption. These new facilities are expected to drive revenue growth and improve margins.

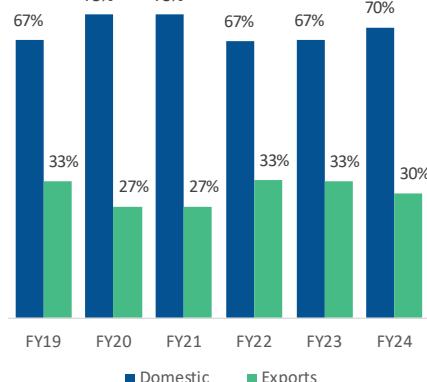
Capex Update

Tarsons has incurred approximately ₹4.7 bn of the ₹6 bn capex planned for the Panchla and Amta plants. The remaining capex will be incurred over the next 12-15 months. All the machines related to the first clean room arrived during this quarter, with production expected to commence in the first clean room in Q2FY25. Additionally, the company received long-awaited machines, which were pending for the last 6-7 months, for cell culture and is estimated to start commercial production by Q4FY25 in a phased manner. Regarding the Amta plant, the company has signed an MOU with the Board of Radiation & Isotope Technology (BRIT) for the radiation plant. Sterile (radiated) production will reduce dependency on one of its sole vendors in West Bengal. The civil work for the Amta plant is expected to be completed by Q2FY25, with commissioning expected by Q3FY25.

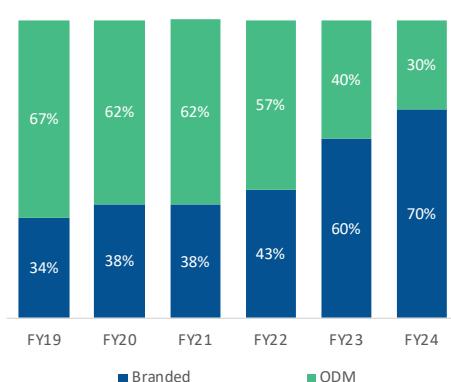
Outlook

In the previous quarter, our revenue forecasts were revised following the management's withdrawal of its ₹5bn revenue target for FY25, prompted by the ongoing phased recovery in demand. Consequently, we now project a Revenue/EBITDA/PAT CAGR of 9%/20%/42% over the FY24–26E period. Despite these positive projections, Tarsons continues to face challenges such as sluggish demand for plastic-labware products, a weak geopolitical environment, and ongoing inventory de-stocking. However, signs of recovery in biotech investments and increased government expenditure on health infrastructure present potential growth opportunities. We have factored in FY25E/FY26E EBITDA margins of 35%/37%, considering Tarsons resilient gross margins, which remained robust despite certain one-offs (74% in Q4FY24 on a standalone basis). Given these factors and the full commissioning of the ₹6bn capex in FY25, we believe Tarsons is poised to leverage significant operating efficiencies. With strong cash flows of ₹1,040mn and a CFO/EBITDA ratio of 104%, Tarsons is currently trading at an 80% discount to its maximum P/BV of 3.5x (compared to a peak of 13.5x in FY21). Therefore, we maintain our 'BUY' rating, with a revised target price of ₹560 (34x FY26E EPS of ₹16.6), down from our earlier estimate of ₹631 owing to a big miss on operating and PAT margins (earlier EBITDA/PAT margin estimates for FY25E/26E were 45%/25% & 45%/34% vs revised FY25E/26E 35%/17% & 37%/22% respectively).

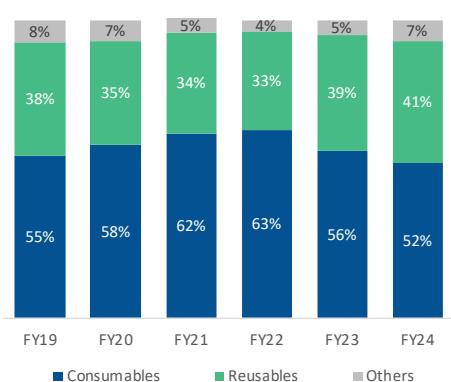
Domestic vs Exports split



ODM continues to decline

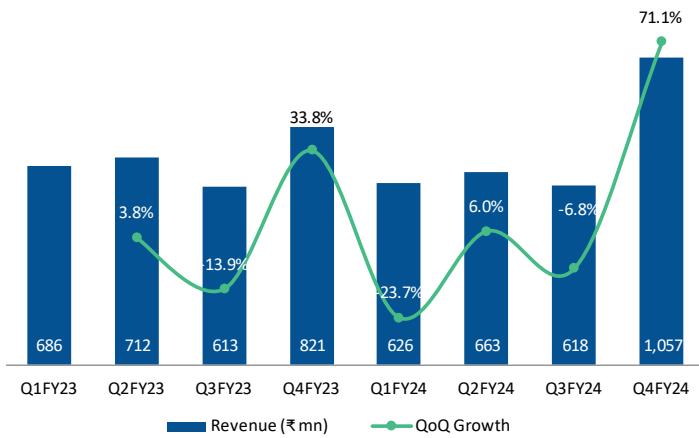


Consumables are on the back foot, Reusables continue to perform

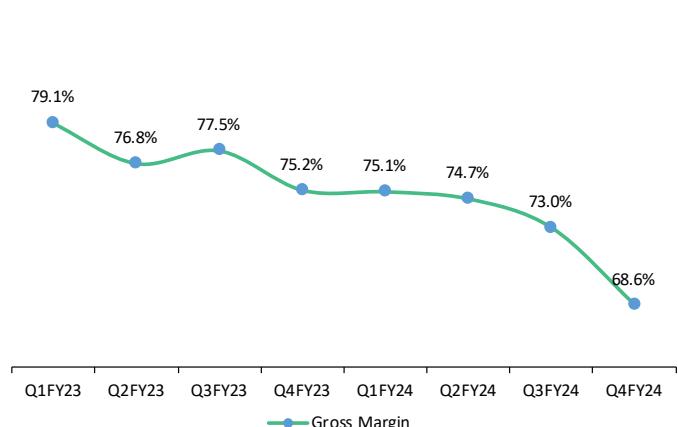


Source: Company, LKP Research

Strong sequential recovery was seen in Q4FY24; Consolidated revenues supported by Nerbe

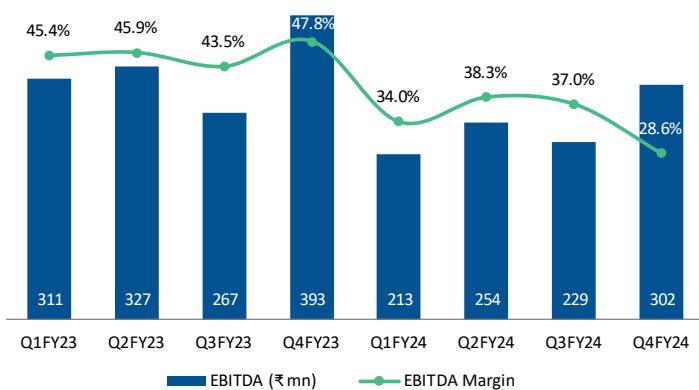


Consolidated gross margins decline to lowest due to one-offs

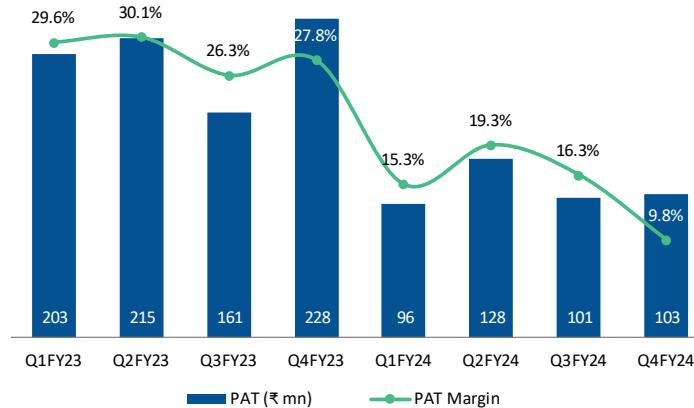


Source: Company, LKP Research

Operating margin declined to the lowest levels due to Nerbe consolidation



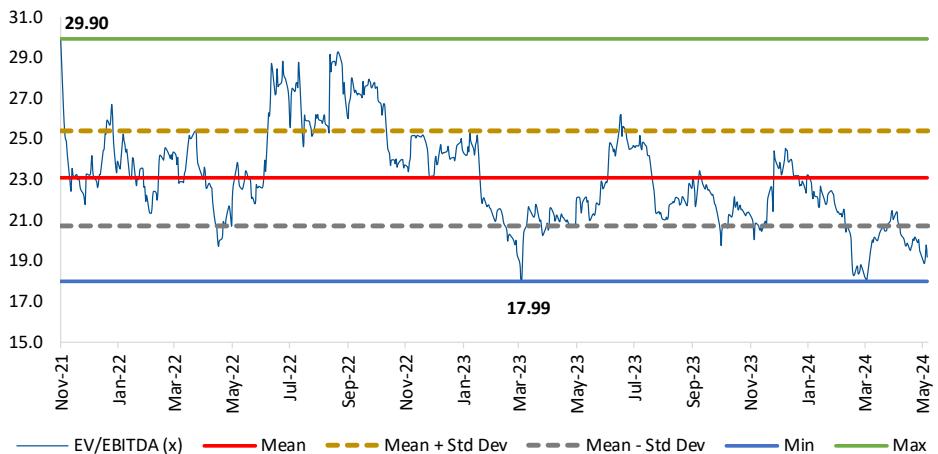
Higher taxes and finance costs dragged PAT/PAT margins in Q4FY24



Source: Company, LKP Research

Source: Company, LKP Research

EV/EBITDA mean and standard deviation



P/B mean and standard deviation



MCAP/ Sales mean and standard deviation



Profit and Loss Statement

(₹ mn)	FY21	FY22	FY23	FY 24	FY 25E	FY 26E
Revenue from Operations	2,289	3,008	2,832	2,964	3,346	3,914
Raw Material Cost	615	629	651	822	903	967
Employee Cost	244	314	341	443	502	587
Other Exp	395	538	544	701	770	920
EBITDA	1,034	1,527	1,298	998	1,171	1,440
<i>EBITDA Margin(%)</i>	45.2%	50.8%	45.8%	33.7%	35.0%	36.8%
Depreciation	137	220	285	404	415	320
EBIT	898	1,307	1,013	594	756	1,120
<i>EBIT Margin(%)</i>	39.2%	43.5%	35.7%	20.0%	22.6%	28.6%
Other Income	54	85	119	115	127	153
Interest	27	42	45	101	100	90
PBT	924	1,350	1,087	608	783	1,183
<i>PBT Margin(%)</i>	40.4%	44.9%	38.4%	20.5%	23.4%	30.2%
Tax	236	343	280	181	211	325
Adjusted PAT	689	1,007	807	426	571	858
<i>APAT Margins (%)</i>	30.1%	33.5%	28.5%	14.4%	17.1%	21.9%
Exceptional items	0	0	0	0	0	0
PAT	689	1,007	807	426	571	858
<i>PAT Margins (%)</i>	30.1%	33.5%	28.5%	14.4%	17.1%	21.9%

Balance Sheet

(₹ mn)	FY 21	FY 22	FY 23	FY 24	FY 25E	FY 26E
Equity and Liabilities						
Equity Share Capital	2	106	107	106	106	106
Reserves & Surplus	2,441	4,792	5,587	6,022	6,593	7,451
Total Networth	2,443	4,898	5,693	6,129	6,700	7,557
Long term Borrowings	33	93	807	1,020	1,020	1,020
Deferred tax liability	33	44	54	92	90	69
Other Non-Current liabilities	33	58	74	348	357	309
Provisions				2		
Total non-current liab and provs	98	195	935	1,460	1,467	1,398
Current Liabilities						
Short term Borrowings & Provisions	317	138	320	1,574	1,586	1,591
Trade Payables	60	130	96	146	149	152
Other current liabilities	41	82	213	413	424	463
Total current liab and provs	418	349	629	2,133	2,159	2,206
Total Equity & Liabilities	2,959	5,442	7,257	9,722	10,326	11,162
Assets						
Net block	1,210	1,888	2,248	2,667	2,721	3,090
Capital WIP	215	322	1,190	2,670	2,520	2,320
Goodwill	-	-	-	325	325	325
Other intangible assets	-	-	-	366	366	366
Other non current assets	406	787	1,298	1,341	1,500	1,648
Total fixed assets	1,831	2,997	4,736	7,369	7,433	7,749
Inventories	467	824	1,144	1,287	1,301	1,468
Trade receivables	470	652	658	779	883	978
Cash & Bank Balance	31	858	600	226	619	874
Other current assets	159	112	119	61	89	93
Total current Assets	1,128	2,445	2,520	2,353	2,893	3,412
Total Assets	2,960	5,442	7,257	9,722	10,326	11,162

* Tarsons got listed in Nov'21

Key Ratios

YE Mar	FY21	FY22	FY23	FY 24	FY 25E	FY 26E
Per Share Data (Rs)						
Adj. EPS	13.4	19.5	15.6	8.2	11.0	16.6
CEPS	16.1	23.7	21.1	16.1	19.1	22.8
BVPS	47.6	94.7	110.0	118.5	129.5	146.1
Growth Ratios(%)						
Revenue	30.1%	31.4%	-5.8%	4.6%	12.9%	17.0%
EBITDA	49.4%	47.6%	-15.0%	-23.1%	17.3%	23.0%
EBIT	63.0%	45.6%	-22.6%	-41.3%	27.2%	48.3%
PAT	69.9%	46.2%	-19.8%	-47.2%	34.0%	50.1%
Valuation Ratios (x)						
PE	48.0	36.1	33.1	50.2	37.5	25.0
P/CEPS	40.1	29.6	24.4	25.8	21.7	18.2
P/BV	13.5	7.4	4.7	3.5	3.2	2.8
EV/Sales	14.6	11.9	9.6	8.0	7.0	5.9
EV/EBITDA	32.3	23.4	21.0	23.8	20.0	16.0
Operating Ratios (Days)						
Inventory days	73.4	98.6	145.4	156.3	140.0	135.0
Receivable Days	74.0	78.0	83.6	94.6	95.0	90.0
Payables day	9.4	15.5	12.3	17.8	16.0	14.0
Debt to Equity (x)	0.14	0.04	0.19	0.42	0.38	0.34
Profitability Ratios (%)						
ROCE	35.3%	25.7%	15.3%	7.8%	9.2%	12.5%
ROE	28.2%	20.6%	14.2%	7.0%	8.5%	11.3%

Cash Flow

(₹ mn)	FY 21	FY22	FY23	FY 24	FY 25E	FY 26E
PBT	924	1,350	1,087	608	783	1,183
Depreciation	137	220	285	404	415	320
Interest	27	42	45	99	100	90
Other Adjustments	-6	-25	-55	14	-	-
Operating CF before WC changes	1,082	1,587	1,362	1,125	1,298	1,593
Changes in working capital	-160	-418	-363	99	-121	-218
Tax paid	-241	-334	-243	-184	-211	-325
Cash flow from operations (a)	682	835	756	1,040	966	1,050
Capital expenditure	-619	-1,320	-1,900	-1,843	-1,240	-489
Other investing activities	-20	-60	114	-1,006	-	-
Cash flow from investing (b)	-639	-1,379	-1,785	-2,850	-1,240	-489
Free cash flow (a+b)	42	-545	-1,029	-1,810	-274	561
Proceeds from long term borrowings	65	433	1,052	855	-	-
Repayment of long term borrowings	-133	-330	-151	-417	-	-203
Proceeds from Working Capital demand loan	1,480	2,360	89	1,432	860	-
Other financing activities	-1,684	-1,167	-144	-514	-	-
Dividend Announced/To be Paid	-	-	-	-	-103	-103
Cash flow from financing (c)	-272	1,296	846	1,356	757	-307
Net chng in cash (a+b+c)	-230	751	-184	-453	482	254
Closing cash & cash equivalents	23	774	590	137	619	874

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