

TARSONS PRODUCTS LIMITED

Green shoots visible in the export market!

LKP

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Tarsons Products (Tarsons) reported a sequentially strong quarterly performance despite the ongoing slowdown in the life science industry as inventory destocking continues. Its Revenue/EBITDA/PAT fell 7%/22%/40% on a YoY basis however on a sequential basis the company saw some recovery on the back of volumes and better absorption of fixed costs, its Revenue/EBITDA/PAT were up by 6%/19%/33% respectively. The company's domestic vs exports split stood at 65% & 35% both were down 6%/15% respectively on a YoY basis (Domestic/Export-₹431/₹232mn in Q2FY24 vs ₹442/₹271mn in Q2FY23). A highlighting factor during the quarter was a robust sequential improvement of 37% in its export revenue (₹232mn vs ₹169cr in Q1FY24). Its operating profit fell nearly 22% during the quarter due to expenditure incurred on product development & marketing, higher expenditure for setting up a new facility & employee costs. Its Gross/EBITDA/PAT margin stood at 75%/38%/19% in Q2FY24 as compared to 77%/46%/30% respectively in Q2FY23 however, on a sequential basis their EBITDA/PAT margins have improved by 423bps/397bps respectively. Adjusted EBITDA margin stood at 38.5% in Q2FY24 vs 45.4% in Q2FY23 (Unadjusted EBITDA margin came in at 34% during the quarter). The management reiterated that introduction of fresh product categories and expanding its customer base would help them stay competitive and ahead of the industry as long-term narrative remains resilient. It has also formed a subsidiary in Singapore to engage in investment activities related to its business, including but not limited to the acquisition of other companies, Joint Ventures, Strategic Partnerships etc, as the company is aggressively looking out for potential acquisition in the export markets like Europe & USA.

In the near-term Tarsons continue to face COVID-19 overhangs as its consumables business remains in a downtrend however, in the long-term we expect demand for labware products to pick up especially from H2FY24 as contribution from upcoming Panchla (operations to commence from Q3FY24) and Amta facilities (warehouse and in-house sterilisation centre for captive consumption, operations to start in Q4FY24) to drive revenue growth and improve margins. Tarsons has incurred ~₹3,800 mn of the ₹5,000 mn capex planned over the next 15 months. We have lowered our revenue forecasts as the management withdrew its ₹5bn revenue target by FY25. We are now forecasting a Revenue/EBITDA/PAT CAGR of 17%/19%/17% over FY23–25E vs 25%/26%/23% CAGR earlier, owing to persistent slowdown in demand for labware products, weak geopolitical environment, inventory destocking. We have factored in FY24/FY25 EBITDA margin of 46%/47% as their gross margins remains strong (75% in Q2FY24 remained flat QoQ). We retain 'BUY' with a revised TP of ₹631 (29.5x FY25 EPS of ₹21.4) vs ₹695 earlier.

Key Financials	FY 21	FY 22	FY 23	FY 24E	FY 25E
Total Income (₹ Mn)	2,289	3,008	2,832	3,196	3,890
EBITDA margins (%)	45.2%	50.8%	45.8%	45.9%	46.8%
PAT margins (%)	30.1%	33.5%	28.5%	22.7%	28.5%
EPS (₹)	13.4	19.5	15.6	14.0	21.4
P/E (x)	48.0	36.1	33.1	36.8	24.1
P/BV (x)	13.5	7.4	4.7	4.2	3.5
EV/EBITDA (x)	32.3	23.4	21.0	18.5	14.7
ROE (%)	28.2%	20.6%	14.2%	11.3%	14.7%
ROCE (%)	35.3%	25.7%	15.3%	13.1%	17.8%

Rating	BUY
Current Market Price (₹)	480
12 M Price Target (₹)	631
Potential upside (%)	31

Stock Data

Sector :	Medical Equipment
FV (₹) :	2
Total Market Cap (₹ bn) :	26
Free Float Market Cap (₹ bn) :	7
52-Week High / Low (₹)	750 / 444
12M Avg. Dly Traded Volume (in lakh)	1.03
BSE Code / NSE Symbol	543399 / TARSONS
Bloomberg :	TARSONS:IN

Shareholding Pattern

(%)	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	47.31	47.31	47.31	47.31
Clear Vision	23.42	23.42	23.42	23.42
FPIs	7.85	8.64	9.16	9.59
MFs	2.45	6.68	7.64	7.67
Others	18.97	13.95	12.47	12.01

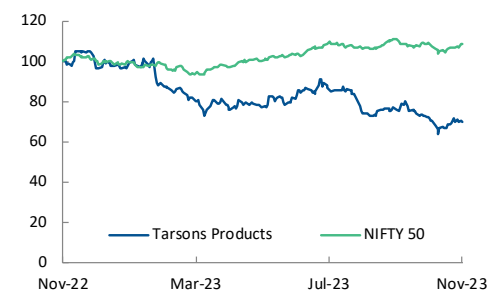
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Tarsons	-3.4%	-7.6%	-10.7%	-30.3%
Nifty 50	-0.4%	1.9%	8.5%	8.7%

* To date / current date : November 17, 2023

Tarsons vs Nifty 50



Green shoots visible as volume picks up despite slowdown

Tarsons faced quite a few challenges in Q2FY24 just like the previous quarter mainly slowdown in the life science industry, customer destocking, and external pressures, resulting in reduced export earnings since last few quarters but this quarter saw a robust comeback in export sales as the company's export revenues jumped 37% QoQ albeit were down 14% YoY. Domestic/Export revenues came in at ₹431mn/₹232mn in Q2FY24 as against ₹442mn/₹271mn in Q2FY23 respectively, In the domestic markets Diagnostics, Research and Pharma has seen lower demand and Biotechnology & CRO segment continues to perform well however the management is expecting a gradual recovery in the former segments. The quarter gone by saw some green shoots in demand (despite weak industry scenario) across its product categories including newer products introduced in the start of the year like PET & PETG bottles. The management reiterated that introduction of fresh product categories and expanding its customer base would help them stay competitive and ahead of the industry as long-term narrative remains resilient. Anticipating a recovery in the market and investments from the pharma and diagnostics sector in H2FY24, we project a rebound in revenue growth to continue in the upcoming quarters.

Capex & Acquisition update

The upcoming Panchla facility, set to produce cell culture and related items, is anticipated to commence operations in Q3FY24, thus amplifying revenue growth starting Q1FY25. The company is actively seeking M&A opportunities to enrich its product portfolio and expand its market presence into newer geographies in relation to this the company has formed a subsidiary in Singapore to engage in investment activities related to its business, including but not limited to the acquisition of other companies, Joint Ventures, Strategic Partnerships etc, as the company is aggressively looking out for potential acquisition in the export markets like Europe & USA.

Exhibit 1: Quarterly performance

(₹ mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Sales	663	686	-3%	626	6%
Raw Material	146	178	-18%	167	-12%
Employee Cost	98	83	18%	91	7%
Other expenses	165	114	45%	155	7%
Total Operating expenses	409	375	9%	413	-1%
EBITDA	254	311	-18%	213	19%
EBITDA Margin (%)	38%	45%	-710	34%	423
Depreciation	97	61	58%	83	17%
EBIT	157	250	-37%	130	21%
Other Income	26	27	-4%	23	15%
Interest	9.5	4.3	119%	24	-61%
Exceptional items	0	0	-	0	-
Profit Before Tax	173	273	-36%	129	35%
Tax	45	70	-	33	-
Tax rate (%)	26%	26%	-	25%	-
Profit after tax	128	203	-37%	96	33%
PAT Margin (%)	19%	30%	-1029	15%	397
EPS (₹)	2.4	4.0	-40%	4.3	

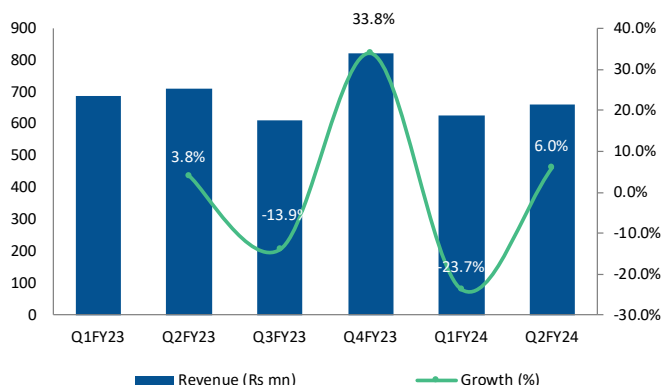
Source: LKP Research

Outlook

In the near-term Tarsons continue to face COVID-19 overhangs as its consumables business remains in a downtrend however, in the long-term we expect demand for labware products to pick up especially from H2FY24 as contribution from upcoming Panchla (operations to commence from Q3FY24) and Amta facilities (warehouse and in-house sterilisation centre for captive consumption, operations to start in Q4FY24) to drive revenue growth and improve margins. Tarsons has incurred ~₹3,800 mn of the ₹5,000 mn capex planned over the next 15 months. We have lowered our revenue forecasts as the management withdrew its ₹5bn revenue target by FY25. We are now forecasting a Revenue/EBITDA/PAT CAGR of 17%/19%/17% over FY23–25E vs 25%/26%/23% CAGR earlier, owing to persistent slowdown in demand for labware products, weak geopolitical environment, inventory de-stocking. We have factored in FY24/FY25 EBITDA margin of 46%/47% as their gross margins remains strong (75% in Q2FY24 remained flat QoQ). We retain ‘BUY’ with a revised TP of ₹631 (29.5x FY25 EPS of ₹21.4) vs ₹695 earlier.

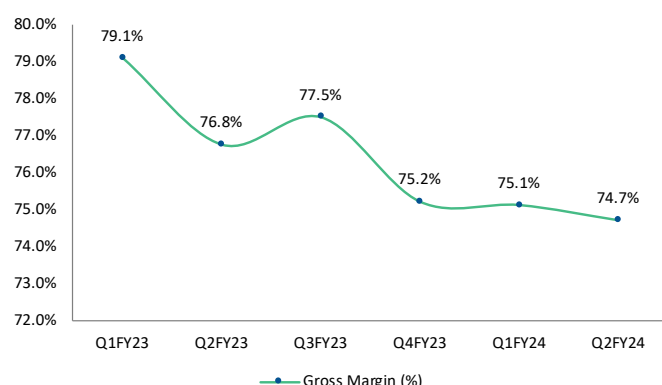
Financials in Charts

Exhibit 2: Revenue trend



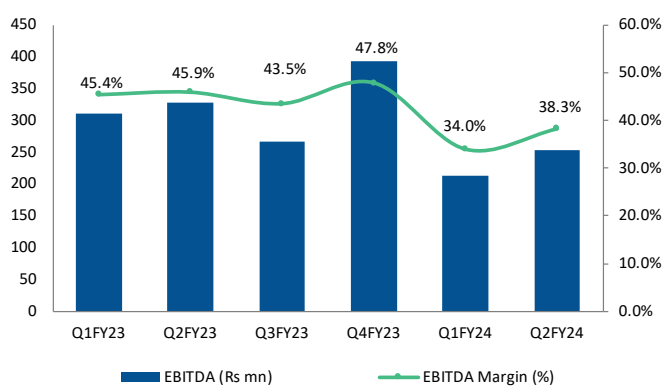
Source: LKP Research

Exhibit 3: Gross Margin trend



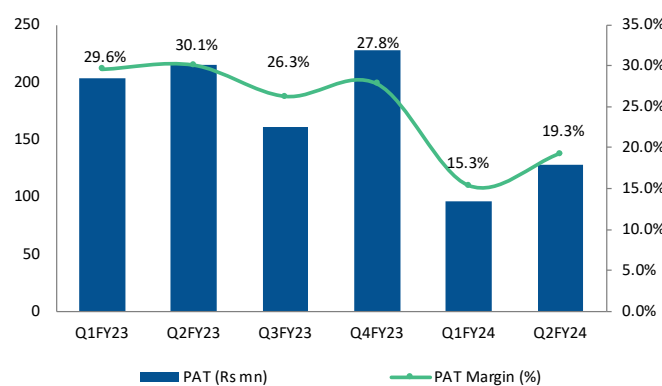
Source: LKP Research

Exhibit 4: EBITDA & Margin trend



Source: LKP Research

Exhibit 5: PAT & PAT Margin trend



Source: LKP Research

Profit and Loss Statement

(₹ mn)	FY21	FY22	FY23	FY 24E	FY 25E
Revenue from Operations	2,289	3,008	2,832	3,196	3,890
Raw Material Cost	615	629	651	690	805
Employee Cost	244	314	341	447	545
Other Exp	395	538	544	591	720
EBITDA	1,034	1,527	1,298	1,467	1,821
<i>EBITDA Margin(%)</i>	<i>45.2%</i>	<i>50.8%</i>	<i>45.8%</i>	<i>45.9%</i>	<i>46.8%</i>
Depreciation	137	220	285	495	308
EBIT	898	1,307	1,013	972	1,513
<i>EBIT Margin(%)</i>	<i>39.2%</i>	<i>43.5%</i>	<i>35.7%</i>	<i>30.4%</i>	<i>38.9%</i>
Other Income	54	85	119	96	117
Interest	27	42	45	100	144
PBT	924	1,350	1,087	968	1,486
<i>PBT Margin(%)</i>	<i>40.4%</i>	<i>44.9%</i>	<i>38.4%</i>	<i>30.3%</i>	<i>38.2%</i>
Tax	236	343	280	243	379
Adjusted PAT	689	1,007	807	725	1,107
<i>APAT Margins (%)</i>	<i>30.1%</i>	<i>33.5%</i>	<i>28.5%</i>	<i>22.7%</i>	<i>28.5%</i>
Exceptional items	0	0	0	0	0
PAT	689	1,007	807	725	1,107
<i>PAT Margins (%)</i>	<i>30.1%</i>	<i>33.5%</i>	<i>28.5%</i>	<i>22.7%</i>	<i>28.5%</i>

Balance Sheet

(₹ mn)	FY 21	FY 22	FY 23	FY 24E	FY 25E
Equity and Liabilities					
Equity Share Capital	2	106	107	107	107
Reserves & Surplus	2,441	4,792	5,587	6,312	7,419
Total Networth	2,443	4,898	5,693	6,418	7,525
Long term Borrowings	33	93	807	807	807
Deferred tax liability	33	44	54	111	66
Other Non-Current liabilities	33	58	74	81	117
Total non-current liab and provs	98	195	935	998	990
Current Liabilities					
Short term Borrowings & Provisions	317	138	320	338	346
Trade Payables	60	130	96	95	129
Other current liabilities	41	82	213	365	417
Total current liab and provs	418	349	629	797	892
Total Equity & Liabilities	2,959	5,442	7,257	8,214	9,407
Assets					
Net block	1,210	1,888	2,248	3,150	3,835
Capital WIP	215	322	1,190	790	290
Other non current assets	406	787	1,298	1,598	1,773
Total fixed assets	1,831	2,997	4,736	5,537	5,897
Inventories	467	824	1,144	1,154	1,351
Trade receivables	470	652	658	666	811
Cash & Bank Balance	31	858	600	624	1,060
Other current assets	159	112	119	233	289
Total current Assets	1,128	2,445	2,520	2,677	3,510
Total Assets	2,960	5,442	7,257	8,214	9,408

* Tarsons got listed in Nov'21

Key Ratios

YE Mar	FY21	FY22	FY23	FY 24E	FY 25E
Per Share Data (₹)					
Adj. EPS	13.4	19.5	15.6	14.0	21.4
CEPS	16.1	23.7	21.1	23.6	27.3
BVPS	47.6	94.7	110.0	124.0	145.4
Growth Ratios(%)					
Revenue	30.1%	31.4%	-5.8%	12.8%	21.7%
EBITDA	49.4%	47.6%	-15.0%	13.0%	24.1%
EBIT	63.0%	45.6%	-22.6%	-4.0%	55.7%
PAT	69.9%	46.2%	-19.8%	-10.2%	52.7%
Valuation Ratios (X)					
PE	48.0	36.1	33.1	36.8	24.1
P/CEPS	40.1	29.6	24.4	21.9	18.9
P/BV	13.5	7.4	4.7	4.2	3.5
EV/Sales	14.6	11.9	9.6	8.5	6.9
EV/EBITDA	32.3	23.4	21.0	18.5	14.7
Operating Ratios (Days)					
Inventory days	73.4	98.6	145.4	130.0	125.0
Receivable Days	74.0	78.0	83.6	75.0	75.0
Payables day	9.4	15.5	12.3	10.7	12.0
Debt to Equity (x)	0.09	0.07	0.16	0.17	0.18
Profitability Ratios (%)					
ROCE	35.3%	25.7%	15.3%	13.1%	17.8%
ROE	28.2%	20.6%	14.2%	11.3%	14.7%

Cash Flow

(₹ mn)	FY 21	FY22	FY23	FY 24E	FY 25E
PBT	924	1,350	1,087	968	1,486
Depreciation	137	220	285	495	308
Interest	27	42	45	100	144
Other Adjustments	-6	-25	-55	-	-
Operating CF before WC changes	1,082	1,587	1,362	1,563	1,937
Changes in working capital	-160	-418	-363	36	-303
Tax paid	-241	-334	-243	-243	-379
Cash flow from operations (a)	682	835	756	1,356	1,256
Capital expenditure	-619	-1,320	-1,900	-1,632	-493
Other investing activities	-20	-60	114	114	-
Cash flow from investing (b)	-639	-1,379	-1,785	-1,517	-493
Free cash flow (a+b)	42	-545	-1,029	-161	763
Proceeds from long term borrowings	65	433	1,052	154	-
Repayment of long term borrowings	-133	-330	-151	-	-227
Proceeds from Working Capital demand loan	1,480	2,360	89	41	-100
Other financing activities	-1,684	-1,167	-144	-	-
Proceeds from issue of equity shares					
Cash flow from financing (c)	-272	1,296	846	195	-327
Net chng in cash (a+b+c)	-230	751	-184	34	436
Closing cash & cash equivalents	23	774	590	624	1,060

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