

12 September 2023

India | Equity Research | Re-initiating Coverage

## Tarsons Products

Medical Devices

### Building capacities to diversify offerings

Tarsons Products (Tarsons) offers a range of plastic labware products. Over the years, it has gained ~25% market share (Source: Company) in a segment which was historically dominated by MNCs. Its network consists of over 150 distributors and more than 500 sub-distributors which provide pan-India visibility to its products. Besides, it has built a sizeable presence in the export market (~33% of revenue) through a mix of branded and ODM sales. The company is now spreading its wings in niche areas like cell culture and is adding two new plants at Panchla and Amta (both in West Bengal) which we believe may double its available capacities by CY24E. Excessive inventory in the system and overheads of new plants may keep a check on growth in the near term. We re-initiate coverage on the stock with **ADD** rating and target price of INR 590 on 22x FY25E EV/EBITDA.

### Diversified product set caters to multiple end-users

Tarsons' portfolio consists of a number of consumables (~56% of FY23 revenue) and reusable (~39% of FY23 sales) products. These cater to a wide range of industries including research organisations, academic institutions (32% of market), pharmaceutical companies, CROs, diagnostic companies and hospitals. The end-use industries of pharmaceuticals and diagnostics are set to grow ~10-11% and ~24% over FY22-FY27E (Source: IQVIA, Netscribes)

### Capacity addition to support growth

Tarsons is incurring capex of INR 5.5bn for two new plants at Panchla and Amta in West Bengal which may double its capacities by CY24E. Panchla plant may lead its foray in cell culture. Cell culture and PCR product represent ~42% of overall domestic labware market and market size estimated at over INR 5bn as of CY20 (Source: Company RHP). The plant can generate revenue of ~INR 5bn at its peak utilisations levels (~0.9x). At Amta, it is setting up capacities for other new products and it may also have a fulfilment centre with in-house sterilisation capabilities.

### Overheads may curb margins

We expect revenue to grow at 10.7% CAGR with EBITDA / PAT CAGR of 4.2% / (6.7) %, respectively, over FY23-FY25E. Margins may contract 520bps to 40.6% in FY25E due to commissioning of new plants. We expect RoE and RoCE of 10.6% and 9.8% in FY25E, respectively.

### Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	3,008	2,832	2,976	3,469
EBITDA	1,527	1,298	1,150	1,410
EBITDA Margin (%)	50.8	45.8	38.6	40.6
Net Profit	1,007	807	591	702
EPS (Rs)	18.9	15.2	11.1	13.2
EPS % Chg YoY	46.2	(19.8)	(26.7)	18.7
P/E (x)	28.2	35.2	48.1	40.5
EV/EBITDA (x)	18.2	22.3	24.7	20.0
RoCE (%)	26.0	13.8	9.1	9.8
RoE (%)	27.4	15.2	9.9	10.6

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#### Market Data

Market Cap (INR)	28bn
Market Cap (USD)	343mn
Bloomberg Code	TARSONS IN
Reuters Code	TARO BO
52-week Range (INR)	914 /501
Free Float (%)	29.0
ADTV-3M (mn) (USD)	0.8

Price Performance (%)	3m	6m	12m
Absolute	(2.6)	(9.2)	(37.5)
Relative to Sensex	7.7	14.6	13.7

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

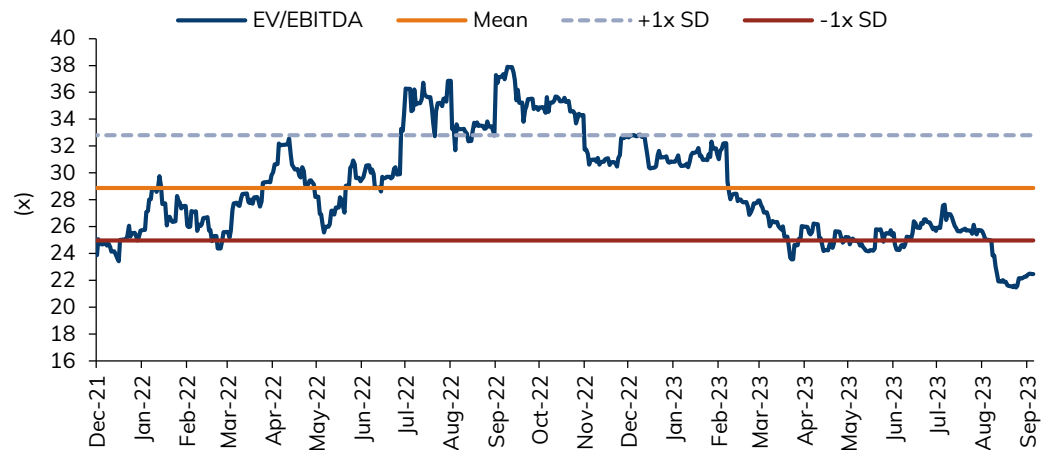
Source: Bloomberg, I-sec research

## Re-initiate coverage with ADD rating, target price of INR 590

Tarsons’ success in labware market can be envisaged by its wide-product range and India manufacturing cost advantage. It has been able to maintain a strong margin profile (45.8% in FY23), compared to its MNC competitors and domestic players. Tarsons is able to generate higher margins on the back of superior technological prowess, economies of scale and premium pricing. For its existing product set, the company has ample capacities that can help it cater to the rising demand and it is further setting up two plants that would help it diversify offerings and improve presence across the value chain.

The stock currently trades at valuations of 48.1x FY24E and 40.5x FY25E earnings and EV/EBITDA multiple of 24.7x FY24E and 20x FY25E. We like the company for its strong domestic presence, expanding exports business and supportive macro factors. We re-initiate coverage on the stock with **ADD** rating and target price of INR 590/share based on 22x FY25E EV/EBITDA. **Key downside risks:** Intensified competition, disruption in distribution network.

### Exhibit 1: 1-year forward EV/EBITDA

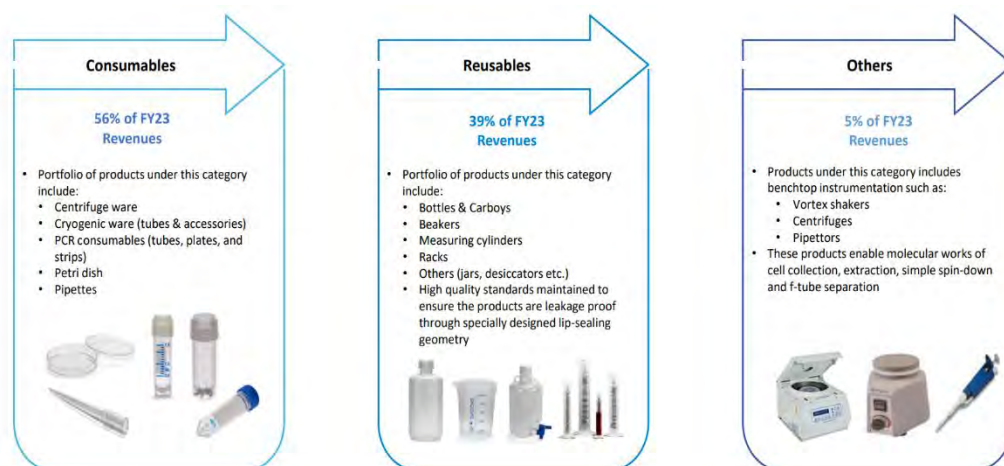


Source: I-Sec research, Bloomberg

### Wide range of products catering to diversified user base

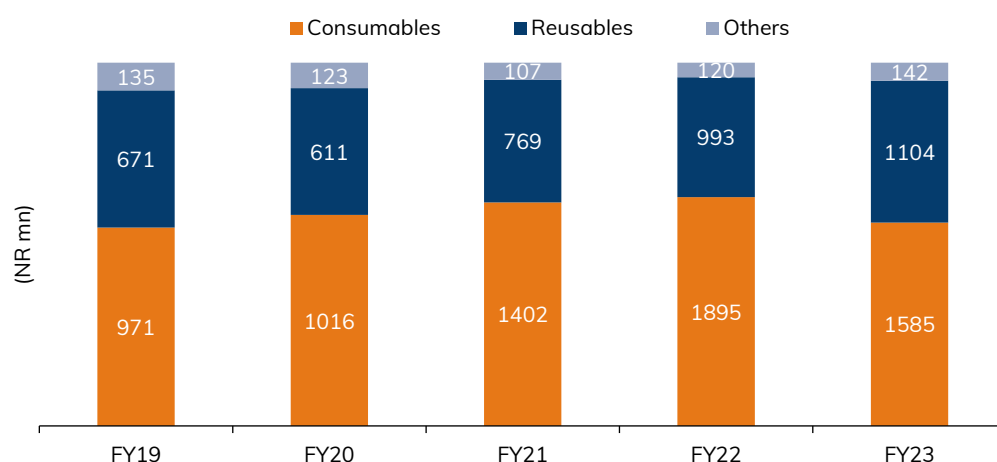
Tarsons is a leading domestic plastic labware company engaged in manufacturing and marketing of consumables, reusables and bench-top equipment. The company has 1,700+ SKUs across 300 product segments, manufactured using medical grade plastics. The product portfolio is classified into three categories: **1) Consumables** range of products include pipette tips, centrifuge ware, petri dishes, cryoware and storage vials and contributed ~56% of FY23 revenues. **2) Reusable** portfolio of the company includes bottles, carboys, beakers, measuring cylinders and contributes ~39% of FY23 sales. **3) Others** - apart from these, the company manufactures vortex shakers, centrifuges, pipettors.

#### Exhibit 2: Tarsons product portfolio



Source: Company data

#### Exhibit 3: Tarsons business mix over the years



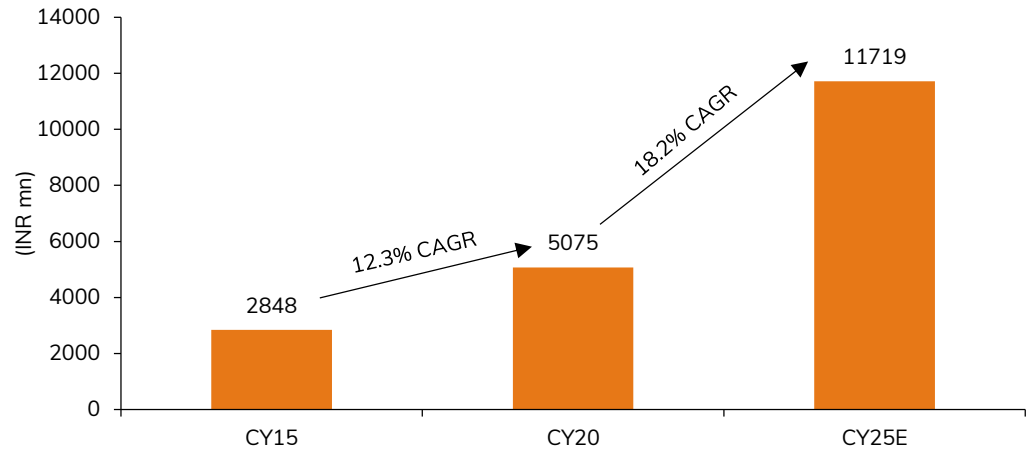
Source: Company data, I-Sec research

#### Entry into cell culture products to expand addressable market

Tarsons intends to begin the manufacturing of cell culture products to further increase its addressable markets. Cell culture and PCR products represent ~42% of overall domestic labware market and was estimated at over INR 5bn as of CY20 (Source: Company RHP). Cell culture products are among the major tools used in cellular and molecular biology and are also used in drug screen, development and large scale manufacturing of biological compounds.

Cell culture products are relatively harder to make vs traditional plastic labware products and come with higher-than-average realisations as they involve proprietary surface treatments and high-end R&D. While domestic market is largely dominated by MNC players, Tarsons is expected to be the first domestic player in the space. Given its cost competitiveness and wide-scale distribution, Tarsons is ideally placed to benefit, in our view.

**Exhibit 4: Domestic plastic labware PCR and cell culture industry growth**



Source: Company RHP, I-Sec research

**Diverse customer base across segments**

Tarsons products caters to a wide range of industries that include research organisations, academic institutions, pharmaceutical companies, CROs, diagnostic companies and hospitals. The end-use industries of pharmaceuticals and diagnostics are set to grow ~10-11% and ~24% over FY22-FY27E (Source: IQVIA, Netscribes), which should help in sustaining healthy demand for the products in coming years. Dr. Reddy’s, Syngene, Dr. Lal Pathlabs, Metropolis are a few notable clients of the company. It also supplies its products to academia and research institutes such as National Centre for Biological Sciences and Indian Institute of Chemical Technology (IICT). Academia currently forms ~32% of the Indian plastic labware market by end use and is expected to maintain healthy demand with increase in academia-industry collaborations in our view.

**Exhibit 5: Tarsons’ key customers across end markets**

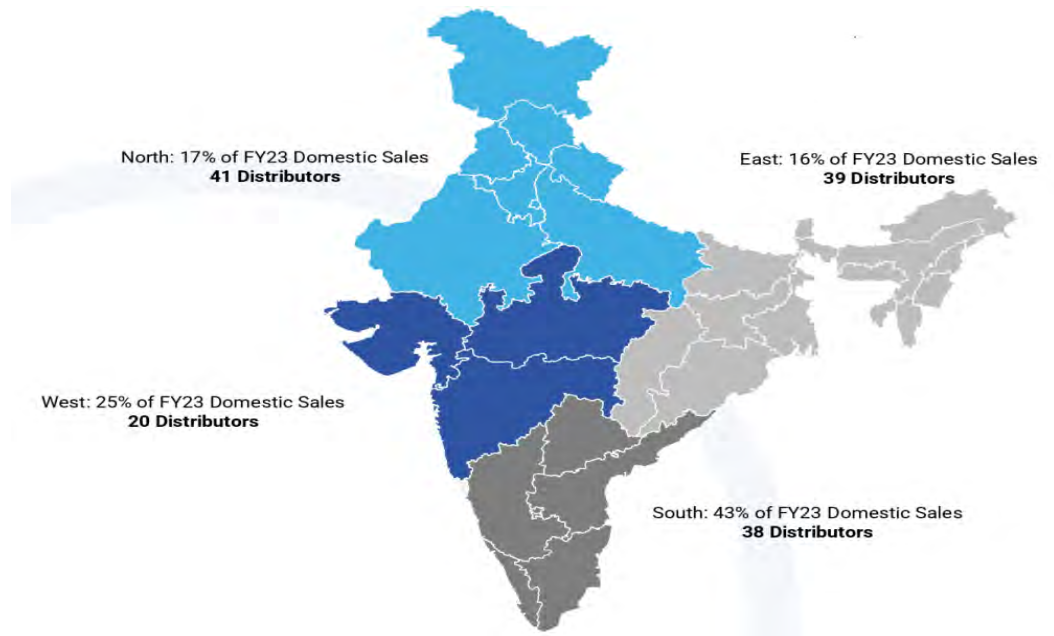
<b>Academic Institutes &amp; Research Organization</b>	National Centre for Biological Sciences	Indian Institute of Chemical Technology	Rain Forest Research Institute	KIIT University	
<b>Pharmaceutical Industry</b>	Dr. Reddy's Laboratories Limited		Enzene Biosciences Limited		
<b>Contract Research Organization</b>	Syngene International Limited		veeda clinical research, Veeda Clinical Research Limited	TCG Lifesciences Private Limited	
<b>Diagnostics Industry</b>	Dr Lal Pathlabs Limited	Metropolis Healthcare Limited	molbio, Molbio Diagnostics Private Limited	AGAPPE, Agappe Diagnostics Limited	Mylab Lifesolutions Private Limited
<b>Exports Market</b>	Avantor, Inc	FC-BIOS SDN BHD	iCell INC	Toei Kaisha Limited	

Source: Company data

## Strong distribution network in India, with sizeable presence overseas

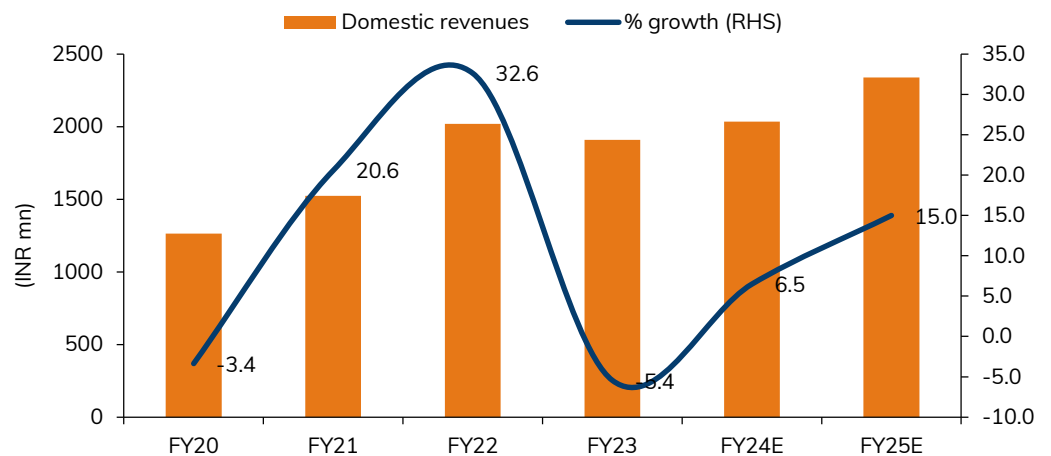
Tarsons is the leading domestic player in an industry traditionally dominated by foreign MNCs and enjoys a healthy market share of ~9-12% in the overall labware market and ~25% in its covered markets (Source: Company). Over the years, the company has been able to leverage its brand equity, high quality and pricing (~10% lower than MNCs) to position itself as a cost-effective alternative to its MNC peers and garner market share. Tarsons follows a distribution-led model, where it has maintained long-standing relationships with its key partners. It currently distributes its products pan India through ~138 distributors with South and West contributing ~68% of total sales. New product launches, foray into cell culture and increased market share gains may drive domestic revenue going ahead.

**Exhibit 6: Pan-India distribution network**



Source: Company data

**Exhibit 7: Domestic revenue to scale up with new product launches**

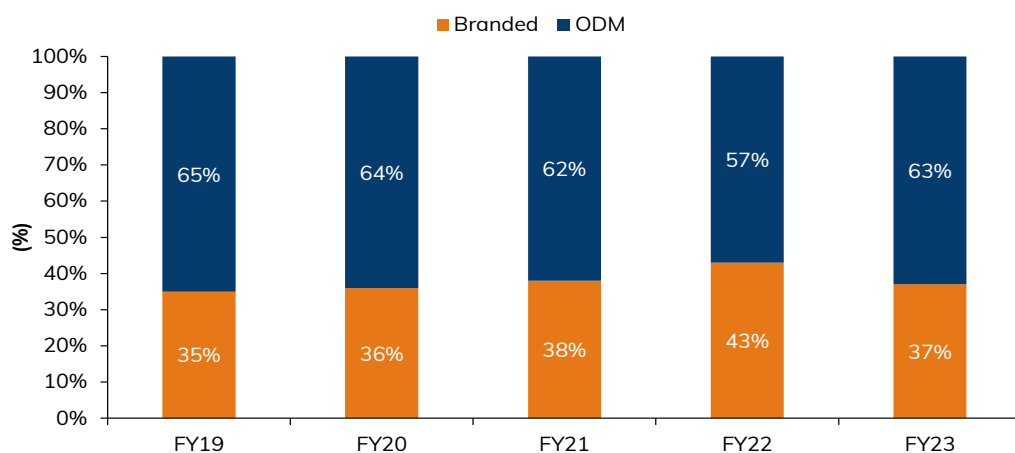


Source: Company data, I-Sec research

### Significant headroom in export markets

Tarsons has a healthy presence in export markets with products being sold across 40+ countries via 45+ distributors. As per Frost and Sullivan report, global plastic labware market stood at INR 589bn in FY20 and is expected to reach INR 969bn in FY25E. The company sells its products through a mix of branded and ODM sales (also known as white label). ODM model is undertaken in developed markets like US and EU, where the product is designed and sold to the respective brand owners. Avantor, icell and FC-BIOS are key overseas clients for its ODM sales. In emerging markets such as Asia-pacific, Middle East and South America, the company sells its products under its own brand name.

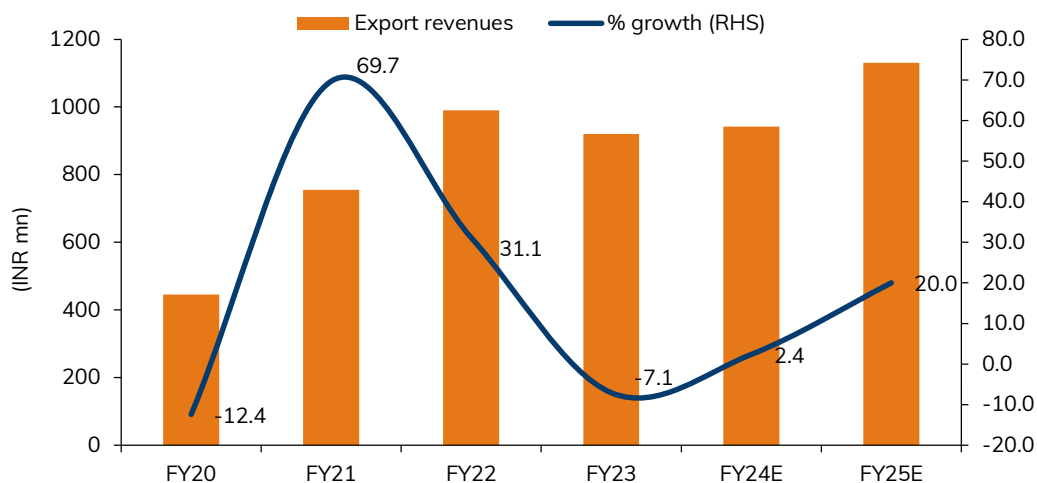
**Exhibit 8: Branded vs ODM mix over the years**



Source: Company data, I-Sec research

Exports have grown at a CAGR of 16% over FY19-FY23. We like the long-term outlook for the segment given: **1)** Large addressable market of INR 590bn, **2)** increased focus on geographic expansion with the company aiming to export to ~120 countries in the next 5-10 years, **3)** benefits from increased promotions and participation in trade shows may flow in. We expect the exports business to grow at a CAGR of 10.9% over FY23-FY25E, with current slowdown in overall market partially impacting the near-term growth.

**Exhibit 9: Export revenue to grow at a CAGR of 10.9% over FY23-FY25E**



Source: Company data, I-Sec research

## Two new plants to further improve scale

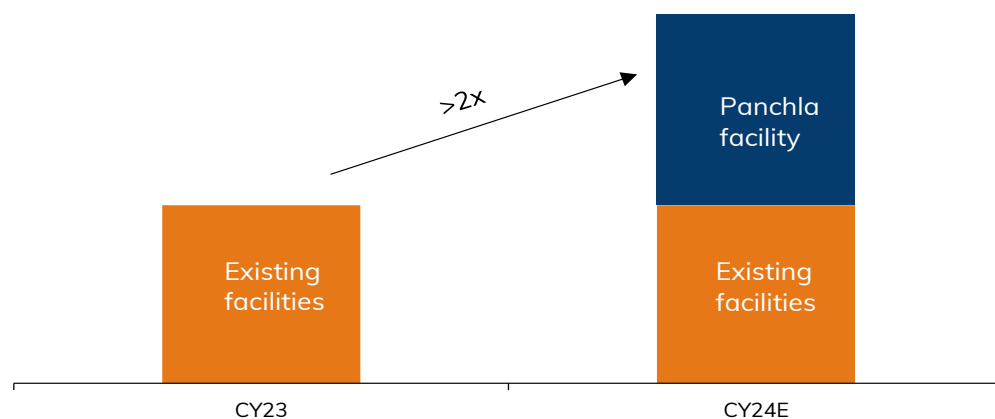
Tarsons currently operates five plants located in West Bengal, with four of them currently under lease. At present, the two facilities at Jangalpur (spread across ~15,142 sq mts) and Dhulagarh contribute to the bulk of revenues (~84% of revenue). The company is currently undergoing capacity expansions at Panchla and Amta with a combined outlay of ~INR 5.5bn. Majority of capacity at Panchla facility is likely to be focused on its foray into cell culture and may commence its first round of production in Q3FY24E, with commercial production of cell culture likely to start in Q4FY24E/Q1FY25E. At peak utilisations levels, management expects revenue of ~INR 5bn (translating to an asset turn of ~0.9x) from the facility. Additionally, in its new facility at Amta, the company is expanding into new product categories and developing a new fulfilment centre with in-house sterilisation capability.

### Exhibit 10: Manufacturing plant details

Units	Land Area (in sq mts)	Ownership	Mfg Revenue contribution (FY23)
Burroshibtolla I	530	Leased	5.04%
Burroshibtolla II	1022	Leased	7.18%
Kasba	515	Leased	3.38%
Jangalpur	15,142	Owned	62.12%
Dhulagarh	4047	Leased	22.27%
Panchla	21,550	Owned	-
Amta	24,280	Owned	-

Source: Company data, I-Sec research

### Exhibit 11: Panchla facility to double capacity

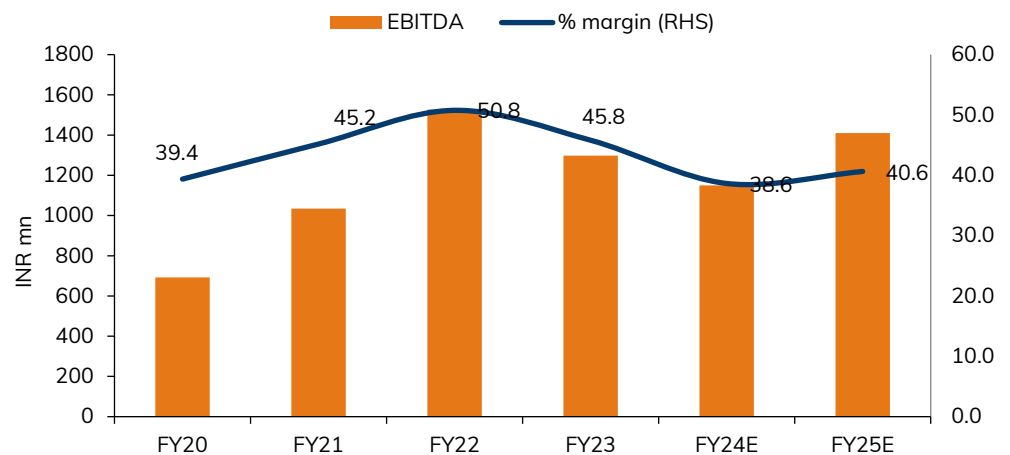


Source: Company data, I-Sec research

### New products and operational efficiencies to improve margins

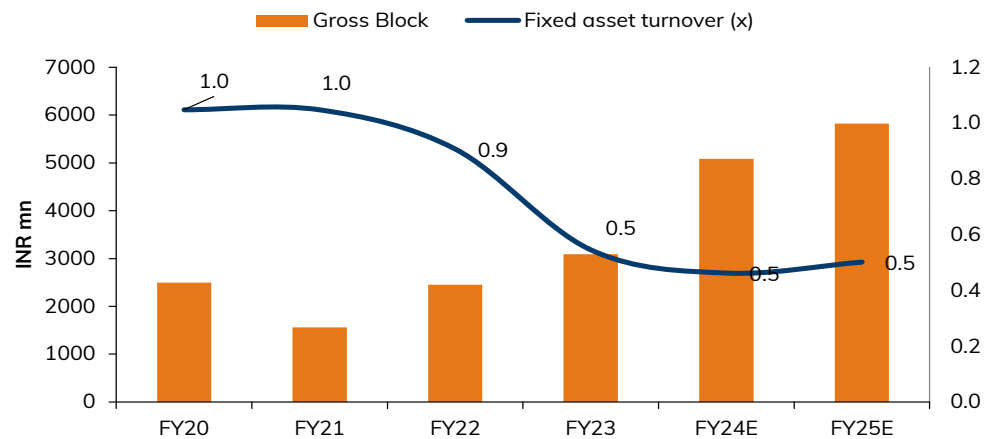
Tarsons has been able to generate healthy margins of ~45-50% over the last couple of years on the back of healthy scale and operating leverage. Investments in automation solutions and cost-saving programmes have further aided in improved productivity and margins in the past. However, the recent slowdown in the overall labware industry growth and excessive inventory in the channel led to negative operating leverage with depressed margins of 34% in Q1FY24. While we expect gradual recovery of the overall industry to aid margins, commissioning of Panchla (expected Q3FY24) and Amta (expected Q4FY24) plants may weigh on margins in the near term.

**Exhibit 12: Commissioning of new plants to contain margins to ~41%**



Source: Company data, I-Sec research

**Exhibit 13: Fixed asset turnover to remain at ~0.5x with expansions**



Source: Company data, I-Sec research



## Company background and key management personnel

Tarsons was incorporated on Jul 5, 1983, and has since evolved into a leading Indian company in the plastic labware market, providing an alternative to high-cost imports in an industry historically dominated by global MNCs. The company was founded by Sanjive Sehgal (promoter), who currently serves as the Chairman and the MD of the company. Rohan Sehgal (son of Sanjive Seghal) is the Whole Time Director and has been working with the company for over 8 years. In 2018, PE firm ADV partners had acquired 49% stake in the company from Sachin Sehgal and post IPO, its shareholding stands at 23.4%.

### Exhibit 14: Key milestones of the company

Calendar year	Particulars
1983	Incorporation of the company with manufacturing of reusable plastic products.
1984	Commenced production of pipette tips
1987	Commenced production of CFT.
2002	Pioneered the first fully robotic clean room plant for manufacturing of molecular biology consumables
2009	Obtained ISO 9001:2015 certificate for their manufacturing facility.
2012	Set up manufacturing facility expanding into production of fully automatic centrifuge tubes, and cryogenic vials in Dhulagarh
	Obtained ISO 13485:2016/NS-EN ISO 13485:2016 certificate for our manufacturing facility
2018	Clear Vision Investment Holdings Pte. Limited acquired 49% equity shareholding in the Company.
2019	Set up line for PCR products in Jalan Industrial Complex at Jangalpur.
2020	Received CE-IVD certification for our products
2021-2022	Acquired 5 acres land to develop a facility for increasing the production in Panchla.
2022	Successfully listed on NSE and BSE

Source: Company data, I-Sec research

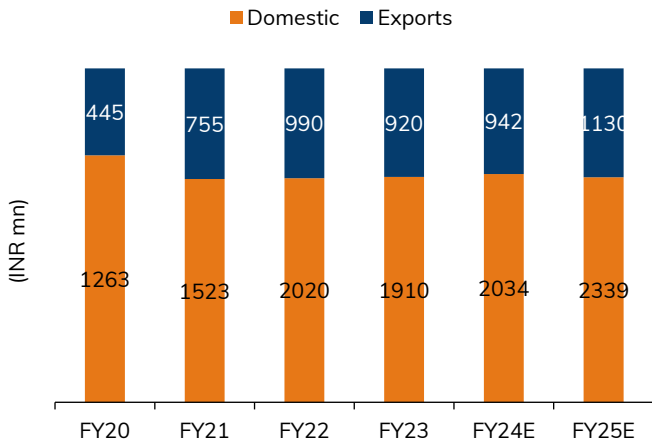
### Exhibit 15: Key management personnel

Name	Designation	Background
Sanjive Sehgal	Chairman and MD	He holds a bachelor's degree in science from St. Xavier's College, Calcutta. He has over 30 years of experience in the company. He has been the company's managing director since Jul 26, '18.
Rohan Sehgal	Whole time Director	He holds a bachelor's degree in science (management) from the University of Manchester. He has over five years of experience in the company. He has been the whole-time director of the company since Jul 25, '18.
Santosh Agarwal	CFO	He holds a bachelor's degree in commerce from the University of Calcutta. He is a chartered accountant from the Institute of Chartered Accountants of India and a company secretary from the Institute of Company Secretaries of India. He has over 20 years of experience and has previously worked with Polar Fans, Genpact, ICA group and Gruas Jaso Group. In his previous position, he was the chief financial officer and company secretary of Jaso India and was responsible for accounts, finance, audit, cost control, financial planning and compliances under the Companies Act, 2013.

Source: Company data, I-Sec research

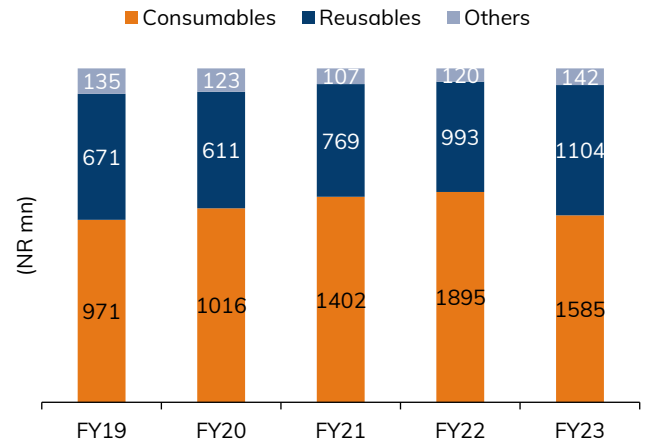
### Story in charts

**Exhibit 16: Export contribution has increased over the years**



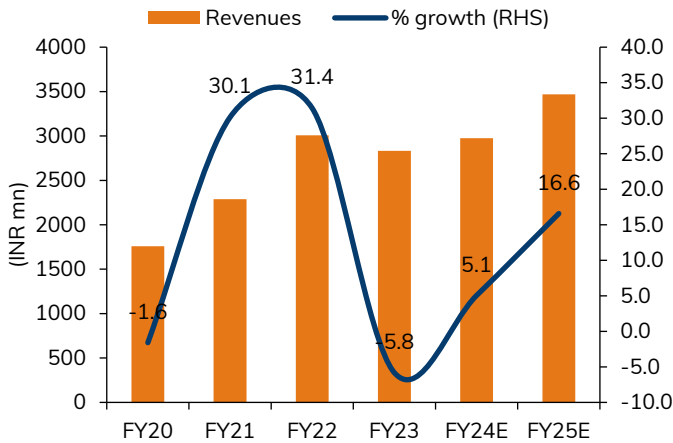
Source: Company data, I-Sec research

**Exhibit 17: Product portfolio mix skewed towards consumables**



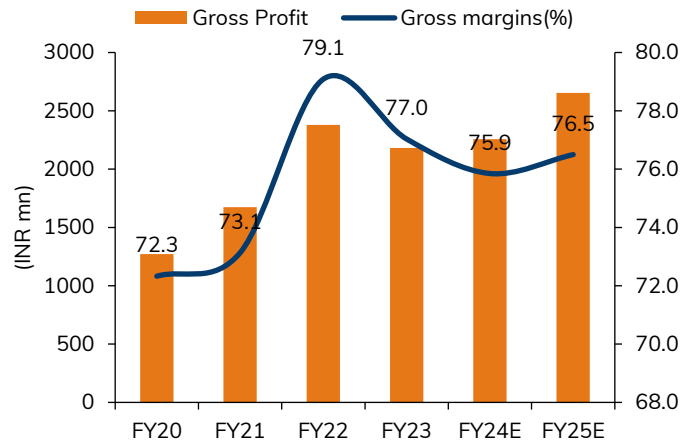
Source: Company data, I-Sec research

**Exhibit 18: Revenue CAGR likely at 10.7% over FY23-FY25E**



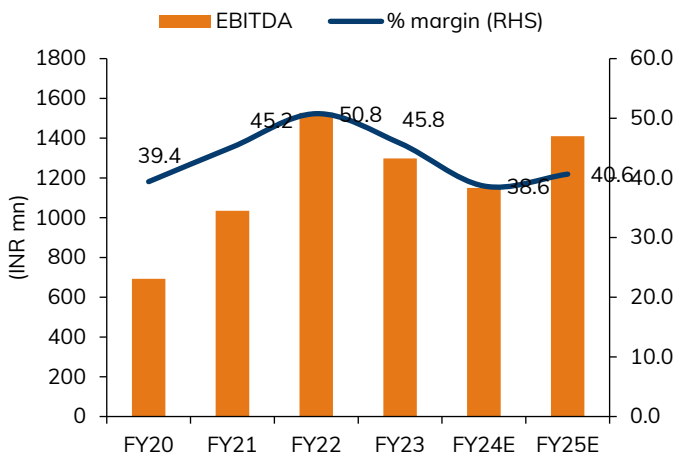
Source: Company data, I-Sec research

**Exhibit 19: Gross margin remains stable at ~77%**



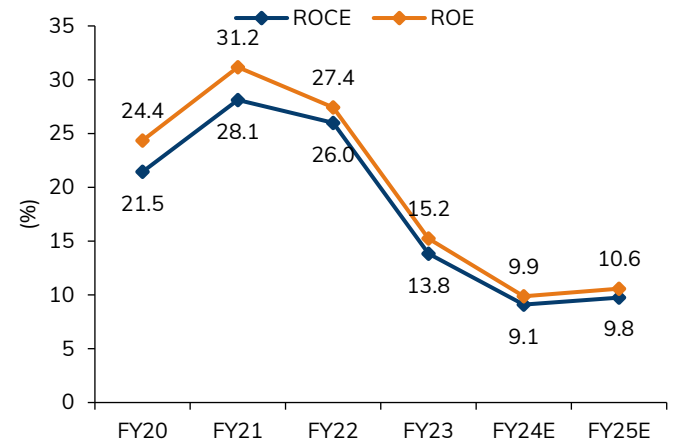
Source: Company data, I-Sec research

**Exhibit 20: Commissioning of new plants to weigh on margins in the near term**



Source: Company data, I-Sec research

**Exhibit 21: Return ratios to decline in the near term with new capacity expansions**



Source: Company data, I-Sec research

### Exhibit 22: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	47.3	47.3	47.3
Institutional investors	18.2	17.6	16.0
MFs and other	7.7	7.6	6.7
FIs/ Banks	-	-	-
Insurance Cos.	0.9	0.8	0.7
FII	9.6	9.2	8.6
Others	34.5	35.1	36.7

Source: Bloomberg, I-Sec research

### Exhibit 23: Price chart



Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 24: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Net Sales</b>	<b>3,008</b>	<b>2,832</b>	<b>2,976</b>	<b>3,469</b>
Operating Expenses	1,481	1,535	1,826	2,059
<b>EBITDA</b>	<b>1,527</b>	<b>1,298</b>	<b>1,150</b>	<b>1,410</b>
EBITDA Margin (%)	50.8	45.8	38.6	40.6
Depreciation & Amortization	220	285	397	529
EBIT	1,307	1,013	754	881
Interest expenditure	42	45	89	89
Other Non-operating Income	85	119	125	146
<b>Recurring PBT</b>	<b>1,350</b>	<b>1,087</b>	<b>790</b>	<b>938</b>
<b>Profit / (Loss) from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Taxes	(343)	(280)	(199)	(236)
PAT	1,007	807	591	702
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>1,007</b>	<b>807</b>	<b>591</b>	<b>702</b>
<b>Net Income (Adjusted)</b>	<b>1,007</b>	<b>807</b>	<b>591</b>	<b>702</b>

Source Company data, I-Sec research

### Exhibit 25: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	2,445	2,520	2,433	2,864
of which cash & cash eqv.	858	600	1,134	1,349
Total Current Liabilities & Provisions	226	330	310	323
<b>Net Current Assets</b>	<b>2,219</b>	<b>2,191</b>	<b>2,123</b>	<b>2,541</b>
Investments	59	41	43	45
Net Fixed Assets	1,814	2,177	3,781	3,986
ROU Assets	67	66	66	66
Capital Work-in-Progress	322	1,190	190	55
Total Intangible Assets	7	5	-	-
Other assets	703	1,236	1,298	1,514
Deferred Tax assests	25	22	22	22
<b>Total Assets</b>	<b>5,216</b>	<b>6,927</b>	<b>7,522</b>	<b>8,228</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>216</b>	<b>1,106</b>	<b>1,106</b>	<b>1,106</b>
<b>Deferred Tax Liability</b>	<b>44</b>	<b>54</b>	<b>54</b>	<b>54</b>
provisions	-	-	-	-
other Liabilities	57	73	77	81
Equity Share Capital	4,898	5,693	6,284	6,987
Reserves & Surplus	-	-	-	-
<b>Total Net Worth</b>	<b>4,898</b>	<b>5,693</b>	<b>6,284</b>	<b>6,987</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>5,216</b>	<b>6,927</b>	<b>7,522</b>	<b>8,228</b>

Source Company data, I-Sec research

### Exhibit 26: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>835</b>	<b>756</b>	<b>1,620</b>	<b>906</b>
Working Capital Changes	(418)	(349)	608	(182)
Capital Commitments	(1,319)	(1,889)	(997)	(602)
<b>Free Cashflow</b>	<b>(484)</b>	<b>(1,133)</b>	<b>623</b>	<b>304</b>
Other investing cashflow	15	104	-	-
<b>Cashflow from Investing Activities</b>	<b>(1,304)</b>	<b>(1,785)</b>	<b>(997)</b>	<b>(602)</b>
Issue of Share Capital	1,497	-	-	-
Interest Cost	(42)	(45)	(89)	(89)
Inc (Dec) in Borrowings	103	901	0	0
Dividend paid	-	-	-	-
Others	(262)	(85)	-	-
Cash flow from Financing Activities	1,296	771	(89)	(89)
<b>Chg. in Cash &amp; Bank balance</b>	<b>827</b>	<b>(259)</b>	<b>534</b>	<b>215</b>
Closing cash & balance	858	600	1,134	1,349

Source Company data, I-Sec research

### Exhibit 27: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	18.9	15.2	11.1	13.2
Adjusted EPS (Diluted)	18.9	15.2	11.1	13.2
Cash EPS	23.1	20.5	18.6	23.1
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	92.1	107.0	118.1	131.3
Dividend Payout (%)	-	-	-	-
<b>Growth (%)</b>				
Net Sales	31.4	(5.8)	5.1	16.6
EBITDA	47.6	(15.0)	(11.4)	22.6
EPS (INR)	46.2	(19.8)	(26.7)	18.7
<b>Valuation Ratios (x)</b>				
P/E	28.2	35.2	48.1	40.5
P/CEPS	23.2	26.0	28.8	23.1
P/BV	5.8	5.0	4.5	4.1
EV / EBITDA	18.2	22.3	24.7	20.0
P / Sales	9.5	10.0	9.6	8.2
Dividend Yield (%)	-	-	-	-
<b>Operating Ratios</b>				
Gross Profit Margins (%)	79.1	77.0	75.8	76.5
EBITDA Margins (%)	50.8	45.8	38.6	40.6
Effective Tax Rate (%)	25.4	25.8	25.2	25.2
Net Profit Margins (%)	33.5	28.5	19.9	20.2
NWC / Total Assets (%)	40.5	31.8	28.5	30.7
Net Debt / Equity (x)	(0.1)	0.1	0.0	0.0
Net Debt / EBITDA (x)	(0.5)	0.4	(0.1)	(0.2)
<b>Profitability Ratios</b>				
RoCE (%)	26.0	13.8	9.1	9.8
RoE (%)	27.4	15.2	9.9	10.6
RoC (%)	29.3	15.7	10.3	11.6
Fixed Asset Turnover (x)	0.9	0.5	0.5	0.5
Inventory Turnover Days	114	143	78	82
Receivables Days	90	82	70	73
Payables Days	18	12	10	10

Source Company data, I-Sec research

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