

## Tarsons Products Ltd

Recommendation	SUBSCRIBE		BACKGROUND		
<b>Price Band</b>	Rs 635-662		<b>Company Overview</b>		
<b>Bidding Date</b>	15-17 November		Tarsons Products Ltd (TPL) is an Indian labware company engaged in the designing, development, manufacturing and marketing of ‘consumables’, ‘reusables’ and ‘others’ including benchtop equipment, used in various laboratories across research organizations, academia institutes, pharmaceutical companies, Contract Research Organizations (“CROs”), Diagnostic companies and hospitals. As of June 30, 2021 it had a diversified product portfolio with over 1,700 SKUs across 300 products. The product portfolio is classified into three key categories which include consumables, reusables, and others. TPL caters to a diverse range of end customers across various sectors which include research organizations, academic institutions, pharmaceutical companies, CROs, diagnostic companies, and hospitals and currently operates through five manufacturing facilities located in West Bengal.		
<b>Book Running Lead Manager</b>	ICICI Sec, Edelweiss, SBI Capital		<b>Objects of the Issue</b>		
<b>Registrar</b>	FINTECH		The issue of Rs 1024 cr includes offer for sale of Rs 874 cr and Rs 150 cr fresh issue which would be utilized for (a) repayment of debt (b) funding capex of new manufacturing facility		
<b>Sector</b>	Lab Equipment		<b>Investment Rationale</b>		
<b>Minimum Retail Application – Details at Cut off Price</b>					
Number of Shares	22		<ul style="list-style-type: none"> <li>• <b>Leading Indian Supplier</b></li> <li>• <b>Expanding Product Portfolio</b></li> <li>• <b>Increasing Global Footprint</b></li> <li>• <b>Strong Financials</b></li> </ul>		
Application Money	14564		<b>Valuation and Recommendation</b>		
Discount to retail	NIL		The company is growing at CAGR of 13% with industry leading margins. EBITDA margins improved further to 53% in Q1FY22 from 45% in FY21. Though there is no one off in these number, we believe that company can maintain margins at around 50% given the leading position and economies of scale. Covid has turned out to be a boon for the companies in healthcare space as worldwide governments have started allocating more funds and people in general have become more conscious towards the healthcare benefits. Given TPL has created a niche for itself in the industry backed by its strong quality standards and a reliable supplier. At upper band of Rs 662, the P/E comes to 51.1x FY21 however we expect TPL to grow faster than current CAGR given the laboratory instrument industry is growing at 20%. We recommend “Subscribe”.		
Payment Mode	ASBA, UPI				
<b>Consolidated Financials (Rs Cr)</b>	<b>FY20</b>	<b>FY21</b>			
Total Income	176	229			
EBITDA	69	103			
PAT	41	69			
<b>Valuations*</b>	<b>Lower Band</b>	<b>Upper Band</b>			
Market Cap (Rs cr)	3379	3522			
EPS	12.9	12.9			
BV/share	46	46			
P/BV	13.8	14.4			
PE	49.1	51.1			
<i>*FY21 numbers, diluted equity</i>					
<b>Post Issue Shareholding Pattern</b>					
Promoters	47.3%				
Public	52.7%				
<b>Offer structure for different categories</b>					
QIB (Including Mutual Fund)	50%				
Non-Institutional	15%				
Retail	35%				
Post Issue Equity Capital (Rs cr)	10.6				
Issue Size (Rs cr)	982-1024				
Face Value (Rs)	2				
Runjhun Jain Assistant Vice President (+91 22 6273 8177) <a href="mailto:runjhun.jain@nirmalbang.com">runjhun.jain@nirmalbang.com</a>					
<b>Financial Snapshot</b>		<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>Q1FY22</b>
Revenues		179	176	229	69
% growth				30%	65%
EBIDTA		72	69	103	37
% Margins		40.1%	39.4%	45.2%	53.2%
Adj. PAT		39	41	69	25
EV/EBIDTA @ Rs 662				34.3	24.3*
PE @ Rs 662				51.1	35.5*
P/BV @ Rs 662				14.4	13.1
*Annualised					

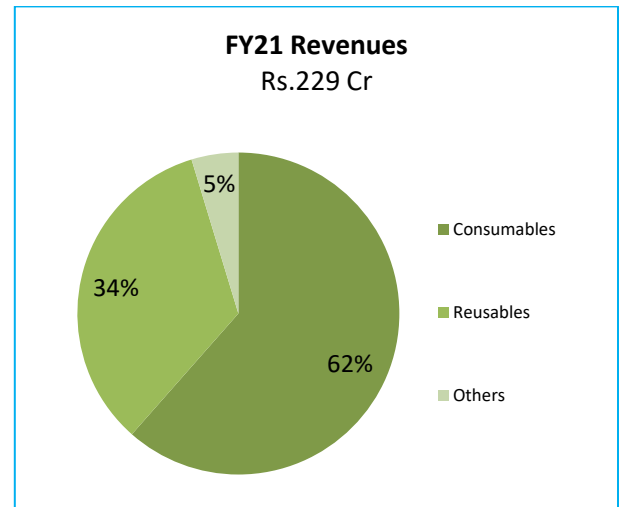
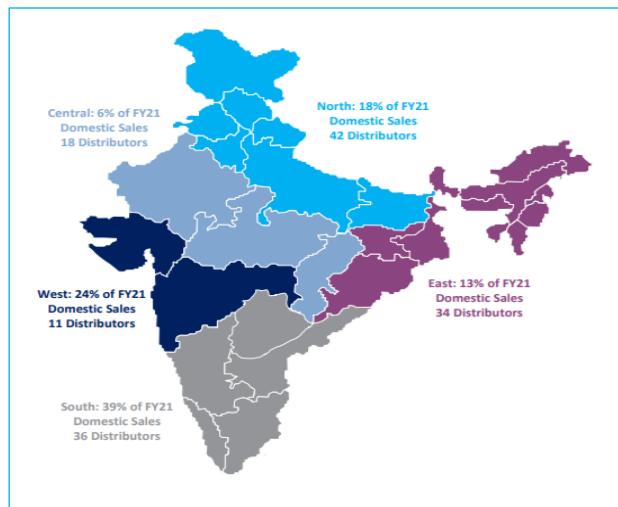


## Tarsons Products Ltd

### Company Overview

Tarsons Products Ltd (TPL) is an Indian labware company engaged in the designing, development, manufacturing and marketing of ‘consumables’, ‘reusables’ and ‘others’ including benchtop equipment, used in various laboratories across research organizations, academia institutes, pharmaceutical companies, Contract Research Organizations (“CROs”), Diagnostic companies and hospitals. As of June 30, 2021 it had a diversified product portfolio with over 1,700 SKUs across 300 products. The product portfolio is classified into three key categories which include consumables, reusables, and others. ‘Consumables’ category includes products such as centrifuge ware, cryogenic ware, liquid handling, PCR consumables and petri dish, transfer pipettes and others. ‘Reusables’ category includes products such as bottles, carboys, beakers, measuring cylinders and tube racks. ‘Others’ category includes benchtop instrumentation such as vortex shakers, centrifuges pipettors and others.

### Breakup of Revenues



TPL caters to a diverse range of end customers across various sectors which include research organizations, academic institutions, pharmaceutical companies, CROs, diagnostic companies, and hospitals and currently operates through five manufacturing facilities located in West Bengal. These facilities are vertically integrated and equipped with automated support systems that help it maintain quality, increase productivity, and reduce costs.



## Tarsons Products Ltd

### Investment Rationale

#### Leading Indian Supplier

TPL is among the top three labware manufacturing companies in India, providing an extensive range of laboratory consumables, reusables and ‘others’ product categories. With over 36 years of experience in this space, it has successfully built ‘Tarsons’ into a leading Indian company in terms of revenue in the plastic labware market in India and gained expertise in the production of a wide range of labware products. In the year 2020, it had a market share of 9-12% of the labware market in India. Some of the key products such as liquid handling ware, centrifuge ware and cryogenics are identified by company’s brand names including Maxipense, Spinwin, Cryochill, respectively. The ability to offer differentiated, user friendly, reliable quality, and cost-effective products has enabled the company to develop strong brand recognition and consumer loyalty in key domestic and overseas markets.

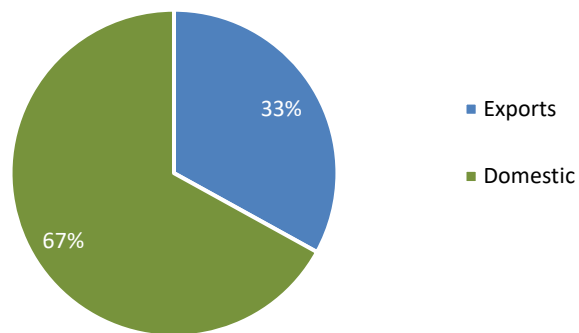
#### Expanding Product Portfolio

As of June 30, 2021, Tarsons has a diversified product portfolio with over 1,700 SKUs products across 300 distinct products. In the CY18, TPL had set up a PCR line for production of a wide range of PCR products and now seek to leverage its extensive experience to strengthen its industry position by developing new products to capitalize on emerging trends. TPL is launching new products in the labware market with varied applications across industries and continue to improve process and cost efficiencies in the operations. It aims to achieve this by leveraging its existing technical and manufacturing capabilities. We believe that launching new products will further widen TPL’s existing range of products and help capitalize on future growth opportunities. Further, these measures will enable it to increase its prominence in the labware industry, gain market share and strengthen the brand of ‘Tarsons’.

#### Increasing Global Footprint

Over the last few years, international business has been a key contributor to the growth of the Company. In order to serve its existing customer base as well as to secure new direct end customers, thereby expanding the reach of the products to new markets, TPL intends to expand its distribution network globally to increase its share.

Revenue Breakup - FY21

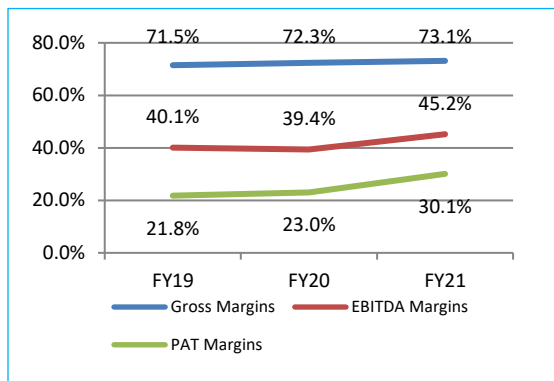
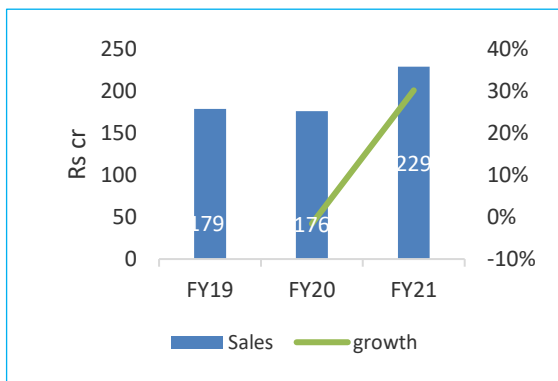


Due to increasing tariffs levied by United States of America and tightening of environmental protection norms on Chinese goods over the past years and India providing a cost-effective manufacturing alternative, domestic Indian players are expected to gain share over time. As a result, we believe, TPL has the capacity to leverage on this shift to Indian manufacturers, including in relation to plastic labware products, and increase the exports in near future.

**Tarsons Products Ltd**

**Strong Financials**

Tarsons has taken almost 30 yrs to create a niche for itself in the much guarded industry. Laboratory equipment industry is dominated by MNCs. Due to its long track the company is able to get optimum level of efficiency. The company has implemented innovative strategic cost-saving and efficiency improvement measures such as advanced automation solutions to improve productivity and bring efficiency in the manufacturing processes. As a result, it enjoys industry's leading profitability.



**Healthy Balance Sheet**

TPL has a deleveraged balance sheet D:E of 0.1 as on 31<sup>st</sup> March 2021. With the IPO funds, the company would be net debt free. The working capital at ~140 looks high due to high inventory days. The company has ~1700 SKUs and as there is no contract based revenue, the company needs to maintain inventory to service the orders promptly. Nevertheless, the management is working on reducing the working capital cycle which has already shown improvement from 179 days in FY19 to 138 in FY21.

**Risks and Concerns**

- High inventory levels:** TPL needs to maintain high level of inventories as it has ~1700 SKUs which needs to be supplied on order basis. In order to optimize the production levels, the company produces minimal quantity even if the order requires lesser quantity. Also, the company's manufacturing base is concentrated in West Bengal whereas it supplies Pan India through distributors which leads to maintaining of adequate inventory levels at various points in the system. However, the management is continuously trying to reduce the inventory days by bringing automation and higher efficiencies.
- Promoter Holding is going below 50%:** The issue includes marginal selling by promoters which is bringing the total promoter holding below 50% post the issue.

**Tarsons Products Ltd**

**Valuation and Recommendation**

The life sciences industry is growing at a rapid pace on account of advancements in the field of scientific research. Laboratories have emerged as multipurpose research facilities that host several types of testing mechanisms, novel developments, and research analogies. The need for various types of equipment across laboratories and increasing trend of research-based studies is driving the global demand for laboratory equipment. As a result, the global laboratory equipment market is expected to register a growth of 4.9% CAGR from 2020 to 2025 to reach USD 20.5 bn by 2025 from USD 16.2 bn in 2020. With high penetration expected in the coming years, plastic labware is expected to replace glassware products by another 15% to reach a market share of approximately 67% in the global laboratory equipment market by FY25, given plastic products are superior in terms of shelf life, handling, and safety benefits. **As per the Frost & Sullivan Report, the domestic plastic labware products’ market size is expected to reach Rs 25,755 million by 2025 at a CAGR of 16%**

**The company is growing at CAGR of 13-14% with industry leading margins. Q1FY22 growth looks high due to low base. The EBITDA margins improved further to 53% in Q1FY22 from 45% in FY21. Though there is no one off in these number, we believe that company can maintain margins at around 50% given the leading position and economies of scale.**

There is no direct listed player in India. We have compared Tarsons Products with Global leader Thermo Fisher which is listed in US.

	Sales	Sales 2yrs CAGR	EBITDA CAGR FY19-21	D/E	Total Asset Turns	EBITDA Margins	ROE	PE	EV/Sales	EV/EBITDA
Thermo Fisher (US)*	32.2	15%	44%	0.3	0.7	24.2%	18.5%	43.3	8.9	36.9
<b>Tarsons</b>	<b>229</b>	<b>13%</b>	<b>20%</b>	<b>0.1</b>	<b>0.8</b>	<b>45.2%</b>	<b>28.2%</b>	<b>51.1</b>	<b>15.5</b>	<b>34.3</b>

\* CY20 figures, in \$bn

Covid has turned out to be a boon for the companies in healthcare space as worldwide governments have started allocating more funds and people in general have become more conscious towards the healthcare benefits. Given TPL has created a niche for itself in the industry backed by its strong quality standards and a reliable supplier. At upper band of Rs 662, the P/E comes to 51.1x FY21 however we expect TPL to grow faster than current CAGR given the laboratory instrument industry is growing at 20%. We recommend **“Subscribe”**.

## Tarsons Products Ltd

### FINANCIALS

P&L (Rs. Cr)	FY19	FY20	FY21	Q1FY22	Q1FY21	Balance Sheet (Rs. Cr)	FY19	FY20	FY21	Q1FY22	Q1FY21
Net Revenue	179	176	229	69	42	Share Capital	0	0	0	10	0
<b>% Growth</b>		<b>-2%</b>	<b>30%</b>	<b>65%</b>		Reserve & Surplus	135	197	244	259	182
COGS	51	49	62	12	17	Non Controlling Int	-	-	-	-	-
<b>GM %</b>	<b>71.5%</b>	<b>72.3%</b>	<b>73.1%</b>	<b>82.0%</b>	<b>40.7%</b>	<b>Networth</b>	<b>135</b>	<b>198</b>	<b>244</b>	<b>269</b>	<b>182</b>
Employee Cost	16	20	24	8	6	<b>Total Loans</b>	<b>65</b>	<b>36</b>	<b>33</b>	<b>64</b>	<b>35</b>
<b>% of Revenues</b>	<b>9.0%</b>	<b>11.4%</b>	<b>10.7%</b>	<b>11.0%</b>	<b>13.6%</b>	Deferred Tax Liab.	4	3	3	3	3
Other expenses	40	38	40	12	8	Trade payable	2	6	6	9	6
<b>% of Revenues</b>	<b>22.4%</b>	<b>21.5%</b>	<b>17.3%</b>	<b>17.8%</b>	<b>18.2%</b>	Other Current Liab	5	5	7	18	7
<b>EBITDA</b>	<b>72</b>	<b>69</b>	<b>103</b>	<b>37</b>	<b>12</b>	Total provisions	1	1	2	1	2
<b>EBITDA Margin</b>	<b>40.1%</b>	<b>39.4%</b>	<b>45.2%</b>	<b>53.2%</b>	<b>27.5%</b>	<b>Total Current Liab.</b>	<b>8</b>	<b>12</b>	<b>15</b>	<b>28</b>	<b>15</b>
						<b>Total Equity &amp; Liab.</b>	<b>212</b>	<b>249</b>	<b>296</b>	<b>365</b>	<b>236</b>
Depreciation	15	14	14	5	3	Fixed Assets & CWIP	91	107	136	160	109
Other Income	6	4	5	2	2	Right of use assets	4	4	7	7	4
Interest	7	6	3	1	1	Goodwill					
						Investments					
Exceptional gain						Other non Curr. assets	19	18	41	56	24
<b>PBT</b>	<b>56</b>	<b>53</b>	<b>92</b>	<b>33</b>	<b>9</b>	Cash	1	26	3	14	2
Tax	17	13	24	9	2	Inventories	46	49	47	59	46
<b>Tax rate</b>	<b>30%</b>	<b>24%</b>	<b>25%</b>	<b>26%</b>	<b>25%</b>	Debtors	45	38	47	49	36
<b>PAT</b>	<b>39</b>	<b>41</b>	<b>69</b>	<b>25</b>	<b>7</b>	Other Current assets	5	7	16	20	14
<b>% Growth</b>						<b>Total Assets</b>	<b>212</b>	<b>249</b>	<b>296</b>	<b>365</b>	<b>236</b>
<b>EPS (Post Issue)</b>	<b>7.3</b>	<b>7.6</b>	<b>12.9</b>	<b>4.7</b>	<b>1.3</b>	<b>Cash Flow (Rs. Cr)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>Q1FY22</b>	<b>Q1FY21</b>
<b>Performance Ratios</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>Q1FY22</b>	<b>Q1FY21</b>	EBITDA	72	69	103	37	12
EBITDA Margin (%)	40.1%	39.4%	45.2%	53.2%	27.5%	Provisions & Others	5	4	5	1	1
PAT Margin (%)	21.8%	23.0%	30.1%	35.9%	16.6%	<b>Op. profit before WC</b>	<b>77</b>	<b>73</b>	<b>108</b>	<b>38</b>	<b>13</b>
ROE (%)	28.8%	20.5%	28.2%	36.9%	15.3%	Change in WC	(9)	6	(16)	(10)	1
ROCE (%)	31.6%	25.4%	34.3%	41.0%	18.2%	Less: Tax	(17)	(15)	(24)	(4)	(3)
Net D/E (x)	0.5	0.0	0.1	0.2	0.2	<b>CF from operations</b>	<b>51</b>	<b>64</b>	<b>68</b>	<b>23</b>	<b>11</b>
<b>Turnover Ratios</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>Q1FY22</b>	<b>Q1FY21</b>	Addition to assets	(34)	(26)	(64)	(42)	(11)
Debtors Days	90	78	74	64	78	(Purchase)/Sale of invst.	0	0	(0)	(0)	0
Inventory Days	94	100	73	77	99	Div/Int Received	0	1	0	0	0
Creditor Days	4	12	9	12	13	<b>CF from Investing</b>	<b>(34)</b>	<b>(25)</b>	<b>(64)</b>	<b>(42)</b>	<b>(11)</b>
Asset Turnover (x)	0.9	0.8	0.8	0.8	0.8	Loans	(12)	(9)	(22)	31	(23)
<b>Valuation Ratios</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>Q1FY22</b>	<b>Q1FY21</b>	Dividend Paid	-	-	-	-	-
Price/Earnings (x)			51.1	35.5	126.4	Interest paid	(6)	(5)	(5)	(1)	(1)
EV/EBITDA (x)		51.0	34.3	24.3	77.0	Equity	-	-	-	(0)	(0)
Price/BV (x)			14.4	13.1	19.3	<b>CF from Financing</b>	<b>(18)</b>	<b>(14)</b>	<b>(27)</b>	<b>30</b>	<b>(23)</b>
Mkt cap/Sales (x)			15.4	12.7	21.0	<b>Net Change in cash</b>	<b>(0)</b>	<b>25</b>	<b>(23)</b>	<b>11</b>	<b>(23)</b>
EV/Sales (x)			15.5	12.9	21.2	Cash at beginning	1	1	25	2	25
						Exchange difference		(0)			
						Cash at end	1	25	2	13	2

Source: Company Data, NBRR



## Tarsons Products Ltd

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## Tarsons Products Ltd

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180.25	▲	6.35	5.89%
74.36	▲	1.321	1.78%
82.5	▲	2.453	3.03%
61.4	▲	6.35	10.34%
61.4	▲	4.25	6.92%
61.4	▲	4.25	6.92%