

TARSONS PRODUCTS LIMITED

One-offs drag margins in Q1FY25; Gradual ramp up to aid growth!

LKP
Since 1948

Trust • Invest • Grow

Q1FY25 Highlights

Tarsons Products standalone revenue grew by 3.6% YoY to ₹649 mn in Q1FY25 vs ₹626 mn in Q1FY24, while its consolidated revenues for Q1FY25 stood at ₹848 mn in Q1FY25 including revenue of ₹200 mn from Nerbe (acquired in Q4FY24) showing a growth of 35.5% YoY (down 19.8% QoQ). The company's gross margin contracted 777bps YoY/123bps QoQ to 67.4%, impacted by product mix and weak domestic market. Its EBITDA dropped 10% YoY /36% QoQ to ₹218mn (excluding one-off expenses in Q1FY24 & Q1FY25), EBITDA margin dropped 838bps/295bps QoQ to 25.7% mainly on account of lower margins in Nerbe. Its Adj. PAT fell 27% YoY/32% QoQ to ₹70 mn (including provisions worth ₹30 mn). Tarsons has incurred capex of ₹3bn towards the Panchla plant and can generate revenues of ₹4bn at peak capacity in 3-5 years post commercialization.

Tarsons' domestic business made up 66% of its Q1FY25 standalone revenue, declining by 4.4% YoY and 27.1% QoQ to ₹430 mn. Export sales increased to 34% of total revenue, compared to 27% in Q1FY24. Standalone export revenue grew by 29.4% YoY but dropped 21.4% QoQ, reaching ₹220 mn. Tarsons plans to capitalize on Nerbe's distribution network and its own manufacturing capabilities in India to expand its export presence to around 120 countries, up from the current 45, within the next 5-10 years.

There were few concerns for the company in the last few quarters as the commissioning gets delayed for few more quarters as it suffered from damage to new machinery (₹30mn impact) in Q1. We expect a swift recovery in margins as industry conditions stabilize. On a consol basis its export markets saw robust recovery during the quarter as its revenue grew by 151% in Q1FY25 (71% YoY standalone growth) and 51% on a QoQ basis led by the acquisition of Nerbe. 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 billion (bn) capex in FY25, Tarsons is poised for significant operating efficiencies. The company boasts strong cash flow from operations of ₹1,040 mn as of FY24 and a CFO/EBITDA ratio of 104% suggesting operating leverage. We maintain our 'BUY' rating, with a target price of ₹600 (46x FY26 EPS of ₹12.9).

The worst could last for few more quarters; All eyes on recovery now

Tarsons' domestic business has shown consistent performance over the past few quarters, while its export segment has experienced robust growth. However, in Q1FY25, the company's standalone margins were pressurised by a higher proportion of export sales and salary hikes. Additionally, the acquisition of Nerbe, which operates with much lower margins, further impacted overall profitability.

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	3,811	4,289
EBITDA margins (%)	45.2%	50.8%	45.8%	33.7%	35.0%	36.6%
PAT margins (%)	31.2%	34.9%	31.1%	14.8%	16.9%	16.9%
EPS (₹)	13.4	19.5	15.6	8.2	11.2	12.9
P/E (x)	48.0	36.1	33.1	55.7	41.0	35.6
P/BV (x)	13.5	7.4	4.7	3.9	3.5	3.2
EV/EBITDA (x)	32.3	23.4	21.0	26.1	19.6	17.1
ROE (%)	28.2%	20.6%	14.2%	7.0%	8.6%	9.0%
ROCE (%)	35.3%	25.7%	15.3%	7.8%	8.7%	8.8%

BUY

Current Market Price (₹)	456
12 M Price Target (₹)	600
Potential upside (%)	32

Stock Data

Basic Industry :	Medical Equipment & Supplies
FV (₹) :	2
Total Market Cap (₹ bn) :	24
Free Float Market Cap (₹ bn) :	7
52-Week High / Low (₹) :	574 / 389
Sensex / Nifty :	80,905 / 24,770
BSE Code / NSE Symbol :	543399 / TARSONS
Bloomberg :	TARSONS IN

Shareholding Pattern

(%)	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	47.31	47.31	47.31	47.31
Clear Vision	23.42	23.42	23.42	23.42
FPIs	7.95	8.16	6.83	7.85
MFs	0.05	0.04	2.15	2.45
Bodies Corp.	6.33	6.19	5.92	5.61
Others	14.94	14.88	14.37	13.36

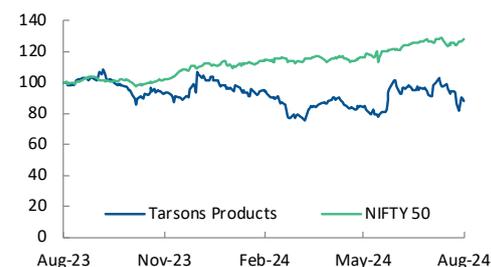
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Tarsons	-4.1%	4.6%	-7.0%	-12.2%
Nifty 50	1.0%	9.9%	12.3%	27.7%

* To date / current date : August 21, 2024

Tarsons vs Nifty 50



Despite these challenges, management is optimistic about the future. They expect peak margins for the combined business to reach between 8-12%, as plans are underway to transfer the manufacturing of over 2,000 of Nerbe's SKUs to Tarsons' facilities in India. This strategic move, along with the consolidation of Nerbe and the upcoming commercialization of two new plants, is anticipated to stabilize and potentially improve margins in the longer term.

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. This anticipated recovery will be supported by contributions from the upcoming Panchla facility, which is expected to commence operations in H2FY25, and the Amta facility.

Capex Update

Tarsons is undertaking a capital expenditure of ₹6 bn, with approximately ₹3 bn already allocated to the Panchla plant. The remaining funds will be directed towards the development of plants at Amta, Jangalpur, and Dhulagarh. The Panchla plant is expected to become operational in the second half of FY25 and could achieve optimal capacity utilization within 4–5 years. At peak utilization, it has the potential to generate revenue of around ₹4 billion.

Quarterly performance

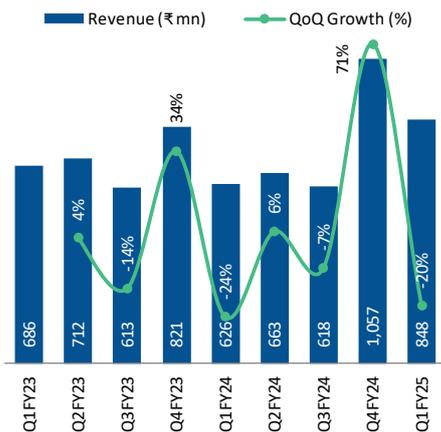
(₹ mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Sales	848	626	36%	1057	-20%
Raw Material	203	167	21%	163	24%
Employee Cost	161	91	77%	156	3%
Other expenses	267	127	111%	399	-33%
Total Operating expenses	630	385	64%	719	-12%
EBITDA	218	241	-10%	338	-36%
EBITDA Margin (%)	26%	39%	(1285) bps	32%	(560) bps
Depreciation	110	83	33%	123	-11%
EBIT	107	158	-32%	215	-50%
Other Income	29	23	28%	34	-14%
Interest	43	24	79%	43	2%
Exceptional items	30	28	-	28	-
Profit Before Tax	93	157	-40%	178	-48%
Tax	23	33	-29%	33	-29%
Tax rate (%)	25%	21%	400 bps	18%	1200 bps
Adj.PAT	70	124	-43%	146	-52%
Reported PAT	40	117	-66%	103	-61%
PAT Margin (%)	8%	20%	(1154) bps	14%	(600) bps
Adj EPS (₹)	1.36	2.40	-43%	2.82	-52%
Reported EPS (₹)	0.75	2.26	-67%	1.94	-61%

Source: Company, LKP Research

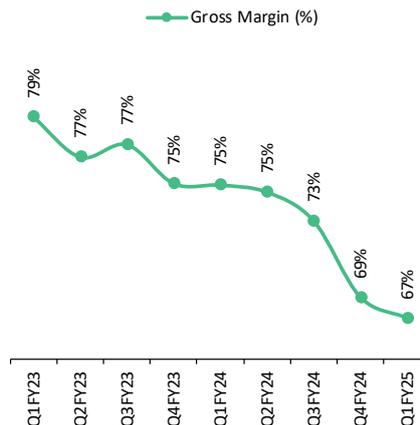
Outlook

The plastic labware industry has experienced a slowdown over the past 18 months, but recent signs of recovery are evident, with increased order enquiries both domestically and internationally. The company, with over four decades of industry experience, sees this as an opportunity to strengthen its market presence by leveraging high-quality products and cost-efficient manufacturing. Recent participation in global RFQs, tenders, and expos has helped showcase the company’s robust product portfolio to new prospects, though order conversions may take time. The upcoming Panchla facility will boost production capacity and introduce new product categories, expanding the company’s market reach. Domestically, business has been steady, while export performance has been strong. However, Q1FY25 saw margin pressures due to higher export contributions, salary hikes, and the integration of low-margin Nerbe. Management expects margins to stabilize in the 8-12% range as Nerbe’s production shifts to India and new plants come online. We expect its Revenue/EBITDA/PAT to grow at a CAGR of 20%/25%/28% respectively over FY24-26E, therefore, We maintain our ‘BUY’ rating, with a target price of ₹600 (46x FY26 EPS of ₹12.9).

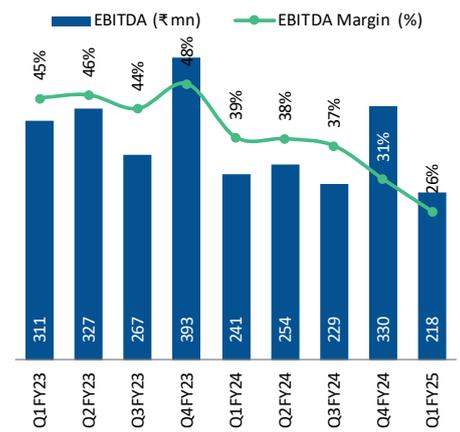
Revenue growth subdued amid slow domestic recovery



Gross Margin continues to decline due to change in product-mix

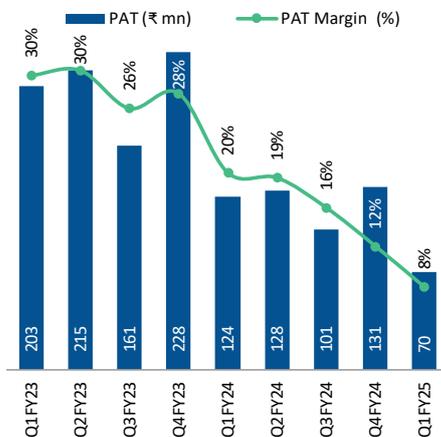


EBITDA margin declined amid Nerbe Consolidation

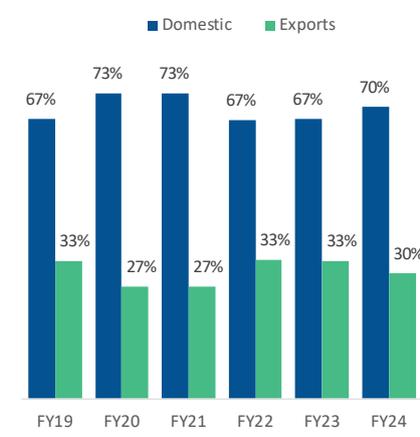


Source: Company, LKP Research

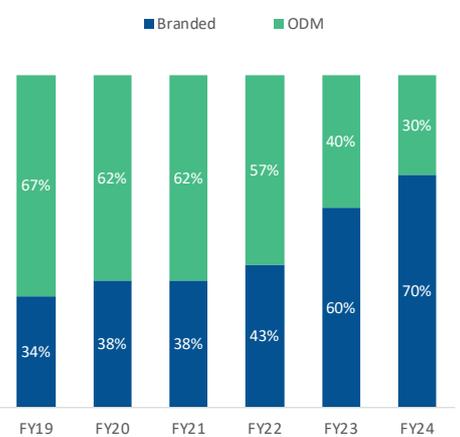
PAT margin touches all-time lows



Domestic vs Export Split

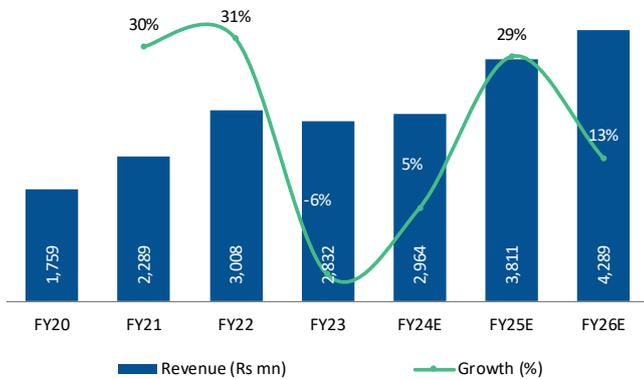


ODM continues to decline

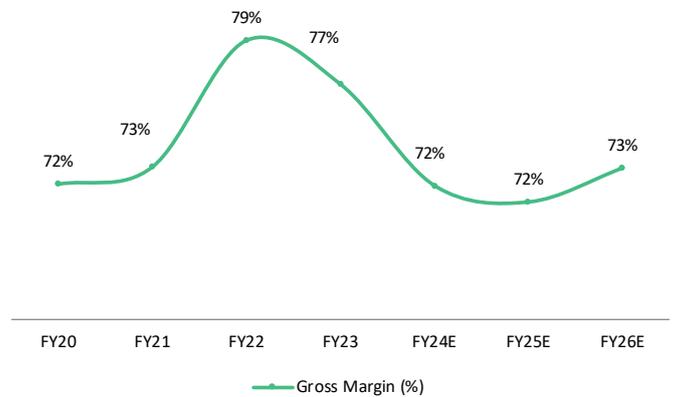


Source: Company, LKP Research

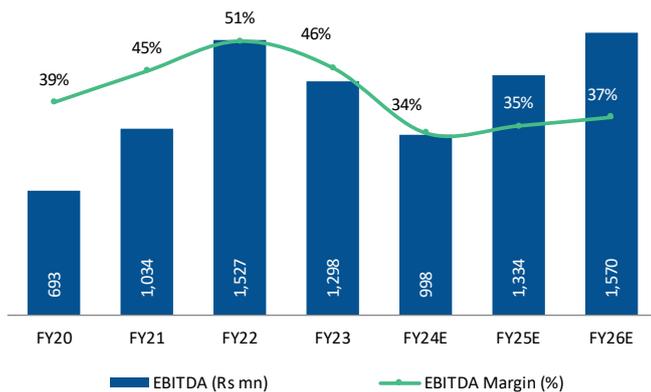
Expect gradual pick up in revenue growth on a low base



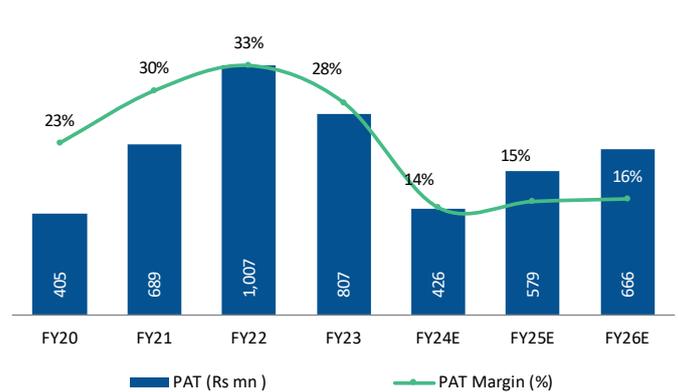
Gross margin to recover promptly as volumes recover



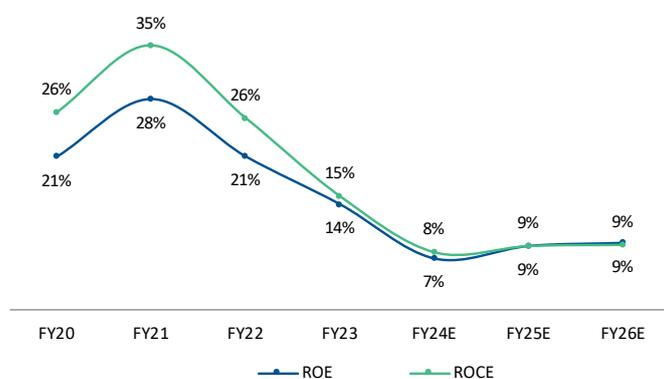
Recovery in Domestic standalone biz to aid margin recovery



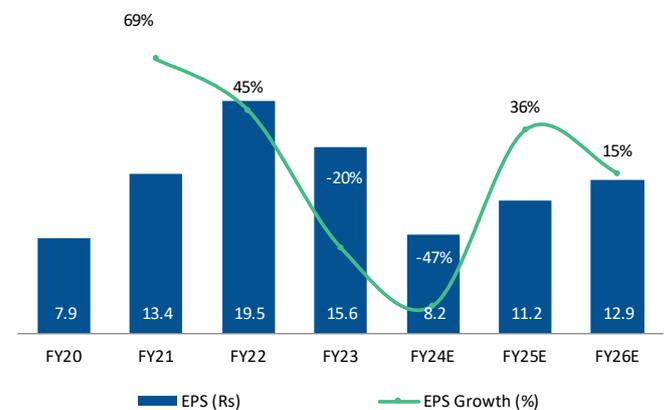
PAT margins to normalise post merger



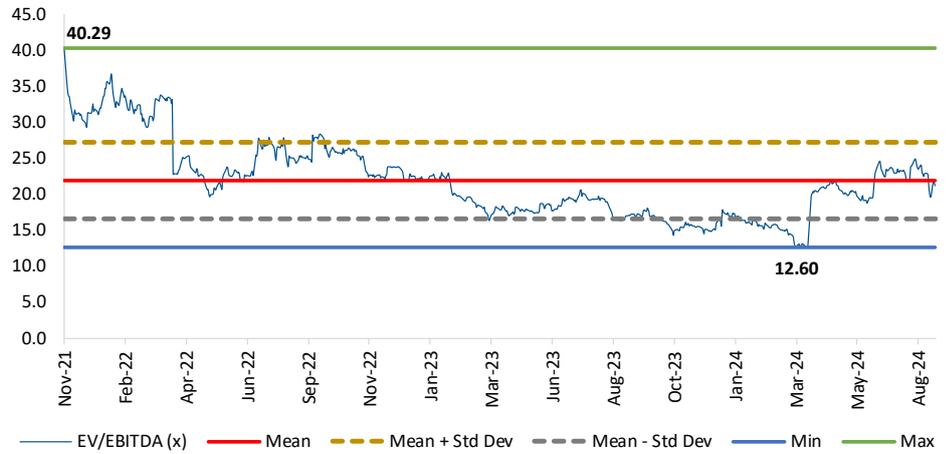
ROE & ROCE to remain depressed until full ramp up of new capacities



Gradual ramp up to lead Swift recovery in FY25E & FY26E

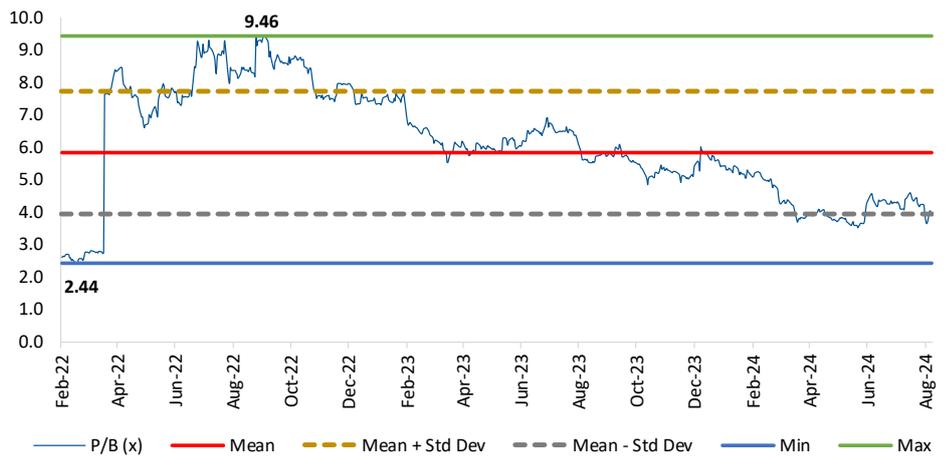


EV/EBITDA mean and standard deviation



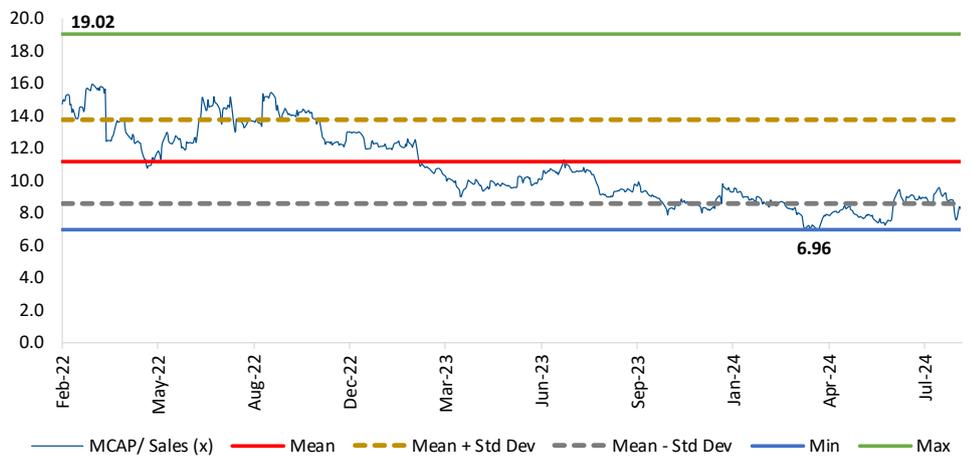
Source: Ace Equity, LKP Research

P/B mean and standard deviation



Source: Ace Equity, LKP Research

MCAP/ Sales mean and standard deviation



Source: Ace Equity, LKP Research

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	3,811	4,289
Raw Material Cost	615	629	651	822	1,086	1,154
Employee Cost	244	314	341	443	514	579
Other Exp	395	538	544	701	876	986
EBITDA	1,034	1,527	1,298	998	1,334	1,570
<i>EBITDA Margin(%)</i>	<i>45.2%</i>	<i>50.8%</i>	<i>45.8%</i>	<i>33.7%</i>	<i>35.0%</i>	<i>36.6%</i>
Depreciation	137	220	285	404	606	709
<i>EBIT Margin(%)</i>	<i>39.2%</i>	<i>43.5%</i>	<i>35.7%</i>	<i>20.0%</i>	<i>19.1%</i>	<i>20.1%</i>
Other Income	54	85	119	115	171	197
Interest	27	42	45	101	107	139
PBT	951	1,392	1,162	621	858	977
<i>PBT Margin(%)</i>	<i>41.5%</i>	<i>46.3%</i>	<i>41.0%</i>	<i>21.0%</i>	<i>22.5%</i>	<i>22.8%</i>
Tax	236	343	280	181	214	253
Adjusted PAT	715	1,049	882	440	643	725
<i>APAT Margins (%)</i>	<i>31.2%</i>	<i>34.9%</i>	<i>31.1%</i>	<i>14.8%</i>	<i>16.9%</i>	<i>16.9%</i>
Exceptional items	0	0	0	0	0	0
PAT	715	1,049	882	440	643	725
<i>PAT Margins (%)</i>	<i>31.2%</i>	<i>34.9%</i>	<i>31.1%</i>	<i>14.8%</i>	<i>16.9%</i>	<i>16.9%</i>

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	6,601	7,267
Total Networth	2,443	4,898	5,693	6,129	6,707	7,374
Long term Borrowings	33	93	807	1,020	1,119	1,839
Deferred tax liability	33	44	54	92	131	152
Other Non-Current liabilities	33	58	74	348	445	396
Total non-current liab and provs	98	195	935	1,460	1,696	2,387
Current Liabilities						
Short term Borrowings & Provisions	317	138	320	1,574	1,590	1,602
Trade Payables	60	130	96	146	169	167
Other current liabilities	41	82	213	413	470	594
Total current liab and provs	418	349	629	2,133	2,230	2,363
Total Equity & Liabilities	2,959	5,442	7,257	9,722	10,633	12,123
Assets						
Gross Block	1,559	2,450	3,169	3,991	4,949	6,598
Net block	1,210	1,888	2,248	2,667	3,019	3,959
Capital WIP	215	322	1,190	2,670	2,520	2,170
Goodwill	-	-	-	325	325	325
Other intangible assets	-	-	-	366	366	366
Other non current assets	406	787	1,298	1,341	1,584	2,111
Total fixed assets	1,831	2,997	4,736	7,369	7,814	8,932
Inventories	467	824	1,144	1,287	1,482	1,608
Trade receivables	470	652	658	779	1,006	1,132
Cash & Bank Balance	31	858	600	226	232	333
Other current assets	159	112	119	61	99	119
Total current Assets	1,128	2,445	2,520	2,353	2,819	3,192
Total Assets	2,960	5,442	7,257	9,722	10,633	12,123

* Tarsaons got listed in Nov'21

Key Ratios

YE Mar	FY21	FY22	FY23	FY 24	FY 25E	FY 26E
Per Share Data (₹)						
Adj. EPS	13.4	19.5	15.6	8.2	11.2	12.9
CEPS	16.1	23.7	21.1	16.1	22.9	26.6
BVPS	47.6	94.7	110.0	118.5	129.6	142.5
Growth Ratios(%)						
Revenue	30.1%	31.4%	-5.8%	4.6%	28.6%	12.5%
EBITDA	49.4%	47.6%	-15.0%	-23.1%	33.6%	17.7%
EBIT	63.0%	45.6%	-22.6%	-41.3%	22.5%	18.2%
PAT	69.9%	46.2%	-19.8%	-47.2%	35.7%	15.1%
Valuation Ratios (X)						
PE	48.0	36.1	33.1	55.7	41.0	35.6
P/CEPS	40.1	29.6	24.4	28.6	20.0	17.3
P/BV	13.5	7.4	4.7	3.9	3.5	3.2
EV/Sales	14.6	11.9	9.6	8.8	6.9	6.2
EV/EBITDA	32.3	23.4	21.0	26.1	19.6	17.1
Operating Ratios (Days)						
Inventory days	73.4	98.6	145.4	156.4	140.0	135.0
Receivable Days	74.0	78.0	83.6	94.6	95.0	95.0
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	0.40	0.46
Profitability Ratios (%)						
ROCE	35.3%	25.7%	15.3%	7.8%	8.7%	8.8%
ROE	28.2%	20.6%	14.2%	7.0%	8.6%	9.0%

Cash Flow

(₹ mn)	FY 21	FY22	FY23	FY 24	FY 25E	FY 26E
PBT	924	1350	1087	608	793	919
Depreciation	137	220	285	404	606	709
Interest	27	42	45	99	107	139
Other Adjustments	-6	-25	-55	14	0	0
Operating CF before WC changes	1082	1587	1362	1125	1505	1767
Changes in working capital	-160	-418	-363	99	-363	-139
Tax paid	-241	-334	-243	-184	-214	-253
Cash flow from operations (a)	682	835	756	1040	928	1375
Capital expenditure	-619	-1320	-1900	-1843	-1728	-1299
Other investing activities	-20	-60	114	-1006	0	0
Cash flow from investing (b)	-639	-1379	-1785	-2850	-1728	-1299
Free cash flow (a+b)	42	-545	-1029	-1810	-800	76
Proceeds from long term borrowings	65	433	1052	855	896	24
Repayment of long term borrowings	-133	-330	-151	-417	0	0
Proceeds from Working Capital demand loan	1480	2360	89	1432	0	0
Other financing activities	-1684	-1167	-144	-514	0	0
Dividend Announced/To be Paid	0	0	0	0	0	0
Cash flow from financing (c)	-272	1296	846	1356	896	24
Net chng in cash (a+b+c)	-230	751	-184	-453	96	100
Closing cash & cash equivalents	23	774	590	137	232	333

DISCLAIMERS AND DISCLOSURES

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.