

09 November 2024

India | Equity Research | Q2FY25 results review

Tarsons Products

Healthcare

Striving for a turnaround

Tarsons reported strong performance in Q2FY25 aided by a recovery in the domestic market and continued traction in exports market. Tarsons has started trial production for certain products at Panchla plant, which is expected to start generating revenues from FY26. Commercialisation is delayed due to damage to new machinery in transit (provision of INR 63mn in Q2 and INR 93mn in H1FY25). It has incurred capex of INR 3bn towards the Panchla plant and can generate revenues of INR 4bn at peak capacity in 3–5 years post commercialisation. We cut our FY25E/FY26E EPS by 21%/6% to factor in a surge in overhead cost and tax rate. Better traction at Panchla plant and commercialisation of cell culture biz are a few near-term catalysts. We upgrade our rating to **HOLD** with a higher TP of INR 430 at 17x FY26E EV/EBITDA.

Better traction in standalone biz driving turnaround

Tarsons' Q2FY25 revenue grew a robust 49.7% YoY (+17% QoQ) to INR 992mn (I-Sec: INR 875mn). Gross margins contracted 770bps YoY/40bps QoQ to 67% impacted by product mix. Post adjustment of INR 63mn, pertaining to provision for damaged machinery, EBITDA grew 24% YoY/44.7% QoQ to INR 315mn (I-Sec: INR 226mn). Margin at 31.7%, was down 660bps YoY (+610bps QoQ). Adj. PAT grew 13.3% YoY/144.9% QoQ to INR 145mn (I-Sec: INR 63mn).

Healthy traction across domestic and exports

Tarsons' domestic business accounted for 65% of its Q2FY25 consolidated revenue, increasing 20.9% YoY/20.9% QoQ to INR 520mn. Share of exports stood at 35% of sales. Standalone export revenue grew 21.7% YoY/27.3% QoQ to INR 280mn. Leveraging Nerbe's distribution strength and manufacturing capabilities in India, Tarsons aims to improve its export footprint to ~120 countries (45 currently) in the next 5–10 years.

Fresh capacities to revive growth

Tarsons is incurring capex of INR 6bn, of which ~INR 3bn has been incurred for the Panchla plant and the rest shall be used for its plants at Amta, Jangalpur and Dhulagarh. The Panchla plant should start generating revenue from FY26 and would likely reach optimum capacity utilisation in the next 4–5 years; it can potentially generate revenue of ~INR 4bn at peak utilisation.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	2,964	4,035	4,689	5,377
EBITDA	998	1,245	1,498	1,774
EBITDA Margin (%)	33.7	30.9	32.0	33.0
Net Profit	426	459	621	831
EPS (INR)	8.0	8.6	11.7	15.6
EPS % Chg YoY	(47.2)	7.7	35.3	33.7
P/E (x)	54.6	50.7	37.4	28.0
EV/EBITDA (x)	25.6	20.7	17.1	14.2
RoCE (%)	6.2	6.5	7.8	9.2
RoE (%)	7.2	7.2	9.0	10.9

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Market Data

Market Cap (INR)	23bn
Market Cap (USD)	276mn
Bloomberg Code	TARSONS IN
Reuters Code	TARO BO
52-week Range (INR)	574 /389
Free Float (%)	29.0
ADTV-3M (mn) (USD)	0.4

Price Performance (%)	3m	6m	12m
Absolute	(9.5)	1.1	(11.0)
Relative to Sensex	(10.3)	(7.1)	(33.3)

ESG Score	2022	2023	Change
ESG score	50.6	-	-
Environment	28.2	-	-
Social	31.3	-	-
Governance	76.9	-	-

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

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	2.6	5.6
EBITDA	1.2	5.8
EPS	(21.2)	(6.0)

Previous Reports

17-08-2024: [Q1FY25 results review](#)

01-06-2024: [Q4FY24 results review](#)

Valuation

Tarsons' domestic business has recovered in the quarter while traction in its export business has been healthy. Borrowings are likely to stay at current levels for 2–3 quarters, post which it is likely to decline. The company has started trial production for certain products at Panchla plant and is now expected to start generating revenues from FY26. Production was delayed due to damage to new machinery (INR 93mn impact in H1FY25) and a replacement has been ordered. Consolidation of Nerbe and commercialisation of the two new plants are expected to keep near-term margins under check. The company has setup seven manufacturing lines for cell culture; a few of them will likely be commercialized in the next couple of quarters.

We reduce our FY25E/FY26E EPS by 21%/6% to factor in higher overheads of new plants and tax rate. We expect revenue to grow at 25.8% CAGR with EBITDA/PAT CAGRs of 22.5%/20.7% over FY24–26E. Margins may decline by ~170bps to 32% in FY26E due to overheads pertaining to commissioning of new plants. We expect RoE/RoCE of 9%/7.8% in FY26E. The stock currently trades at valuations of 50.7x FY25E and 37.4x FY26E on earnings and EV/EBITDA multiple of 20.9x FY25E and 17.2x FY26E. We upgrade our rating to **HOLD** (from Reduce) with a higher target price to INR 430 (earlier INR 408) at 17x FY26E EV/EBITDA (unchanged).

Key upside risks: Better utilisation of new facility; and faster recovery of margin in base business.

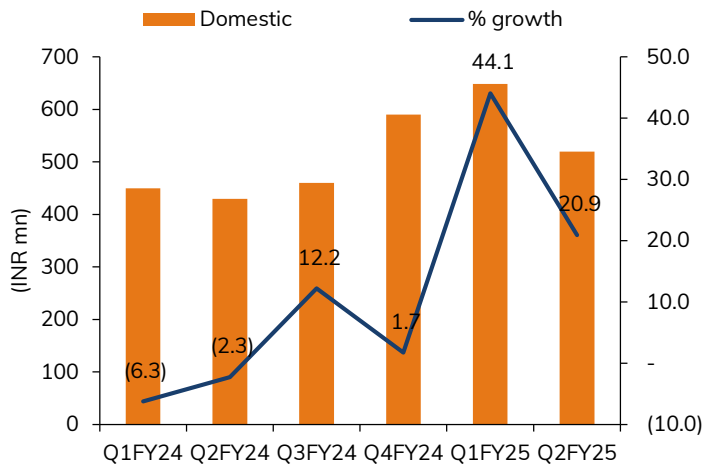
Key downside risks: Delay in growth recovery in global glassware consumable market; and rise in revenue contribution of Nerbe may limit scope for margin expansion.

Exhibit 1: Quarterly review

INR mn	Q2FY25	Q2FY24	YoY %	Q1FY25	QoQ %	FY24	FY23	YoY %
Net Sales	992	663	49.7	848	17.0	2,964	2,832	4.6
Gross Profit	665	495	34.2	571	16.4	2,142	2,182	(1.8)
Gross margins (%)	67.0	74.7	-770bps	67.4	-40bps	72.3	77.0	-480bps
EBITDA	315	254	24.0	218	44.7	998	1,298	(23.1)
EBITDA margins (%)	31.7	38.3	-660bps	25.7	610bps	33.7	45.8	-1210bps
Other income	84	26	224.3	29	189.8	115	119	(3.8)
PBIDT	399	280	42.6	247	61.8	1,113	1,417	(21.5)
Depreciation	140	97	44.5	110	27.2	404	285	41.7
Interest	48	9	410.3	43	12.1	101	45	126.5
PBT	147	173	(14.9)	63	133.3	608	1,087	(44.1)
Tax	46	45	1.2	23	98.9	181	280	(35.3)
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	102	128	(20.6)	40	153.1	426	807	(47.2)
Adjusted PAT	145	128	13.3	59	144.9	426	807	(47.2)

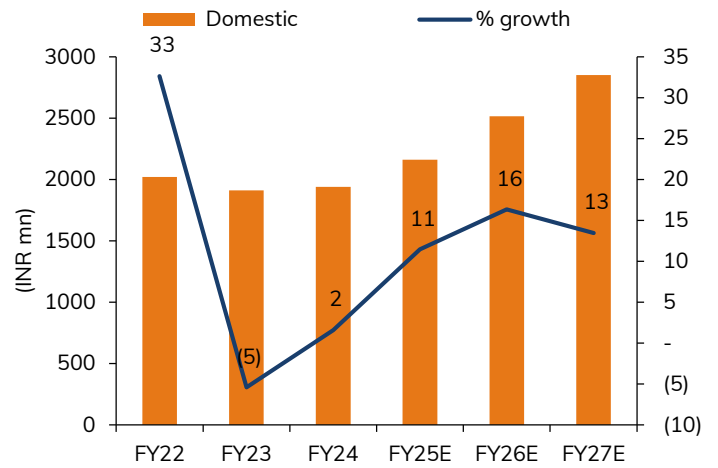
Source: I-Sec research, Company data

Exhibit 2: Stable outlook for domestic market



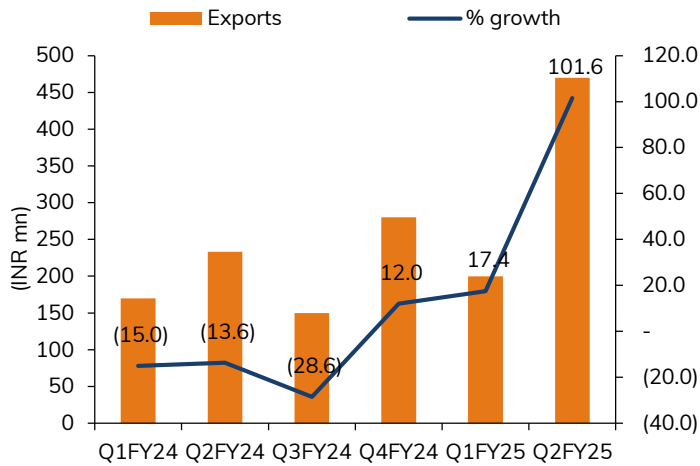
Source: Company data, I-Sec research

Exhibit 3: New launches and capacities may prop up growth in domestic business



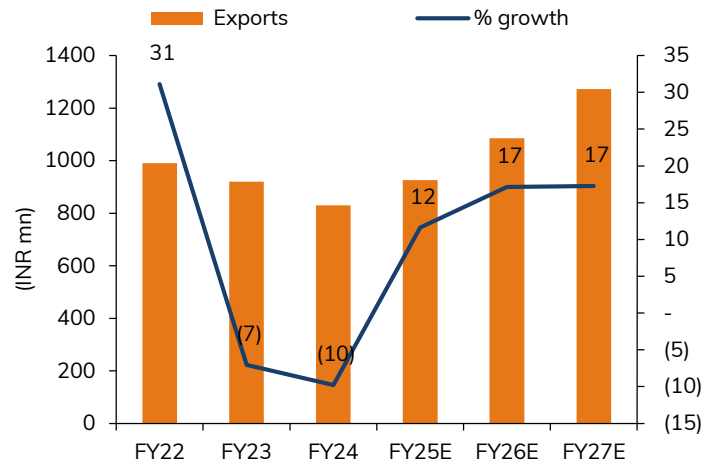
Source: Company data, I-Sec research

Exhibit 4: Exports continue strong traction in growth



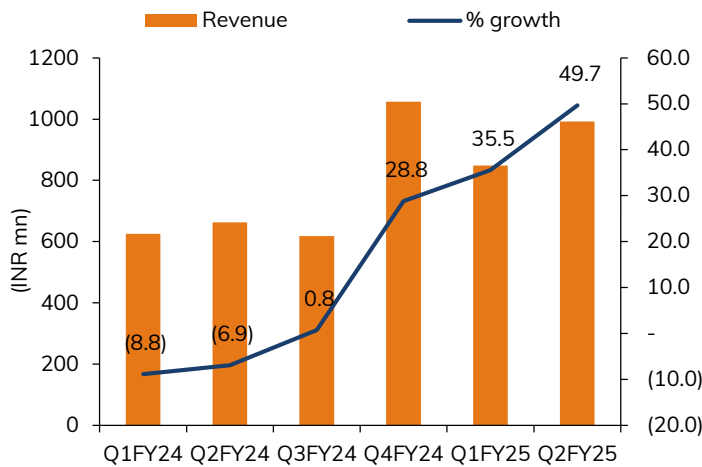
Source: Company data, I-Sec research

Exhibit 5: Export growth may be driven by foray in new geographies



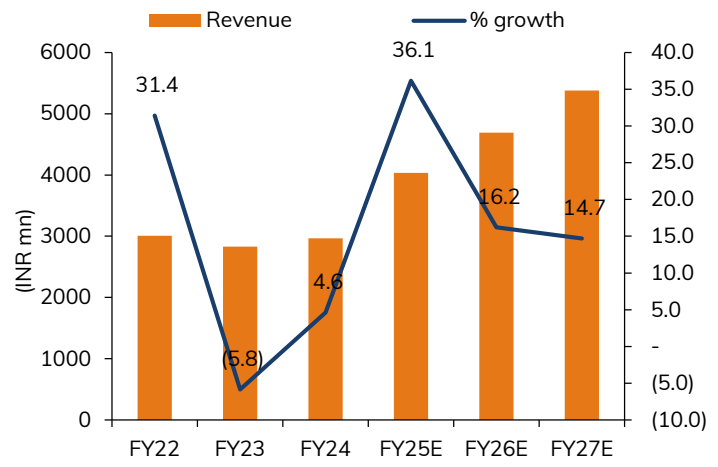
Source: Company data, I-Sec research

Exhibit 6: Revenue rose 49.7% YoY



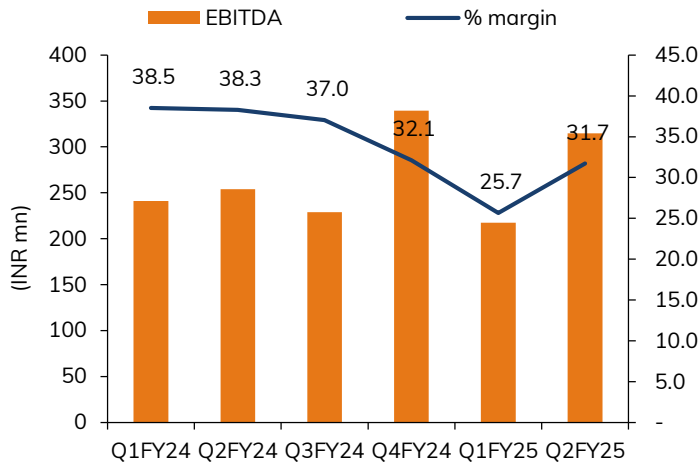
Source: Company data, I-Sec research

Exhibit 7: FY24–26E revenue to grow at 25.8% CAGR



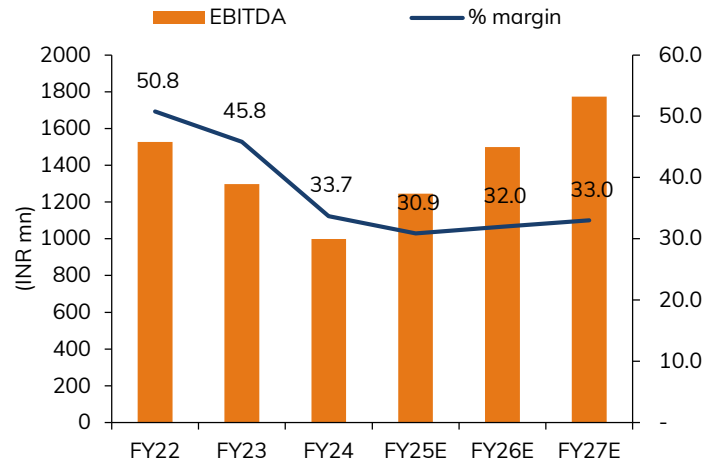
Source: Company data, I-Sec research

Exhibit 8: Margins expanded adjusted for the impact of machinery damage



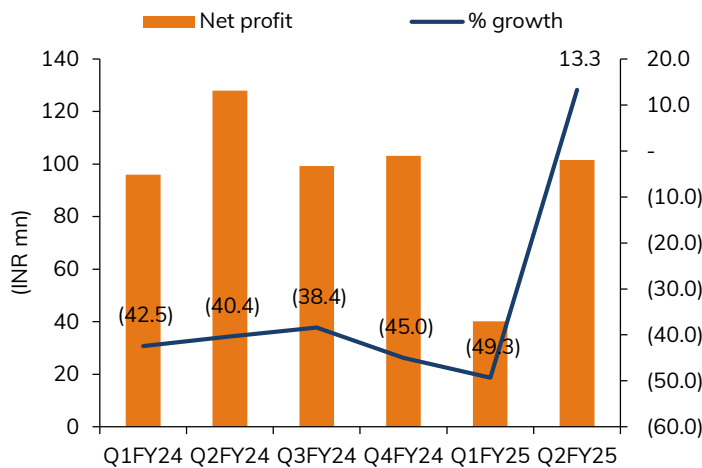
Source: Company data, I-Sec research

Exhibit 9: Commercialisation of new plants may keep margins in check in the near term



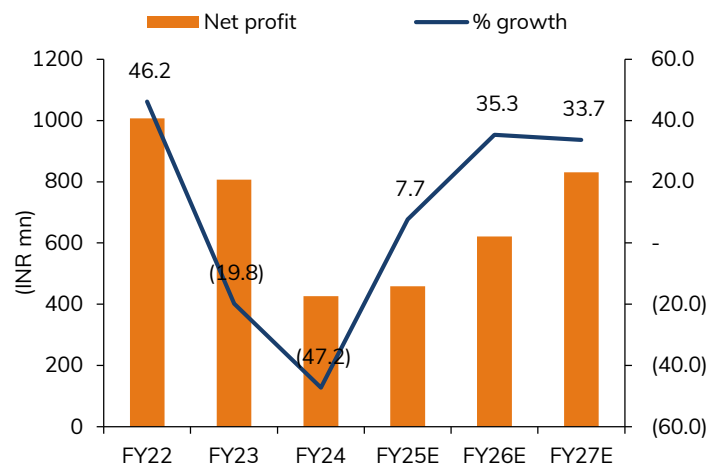
Source: Company data, I-Sec research

Exhibit 10: Adj. PAT rose 13.3% YoY



Source: Company data, I-Sec research

Exhibit 11: Profit growth uptick likely in FY25E



Source: Company data, I-Sec research

Exhibit 12: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	47.3	47.3	47.3
Institutional investors	8.3	8.2	8.2
MFs and other	0.0	0.1	0.0
FIs/ Banks	-	-	0.2
Insurance Cos.	0.0	0.1	0.0
FIs	8.3	8.0	8.0
Others	44.4	44.5	44.5

Source: Bloomberg, I-Sec research

Exhibit 13: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	2,964	4,035	4,689	5,377
Operating Expenses	1,144	1,462	1,667	1,867
EBITDA	998	1,245	1,498	1,774
EBITDA Margin (%)	33.7	30.9	32.0	33.0
Depreciation & Amortization	404	539	659	713
EBIT	594	706	839	1,061
Interest expenditure	101	232	220	192
Other Non-operating Income	115	182	211	242
Recurring PBT	608	656	830	1,110
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	(181)	(197)	(209)	(279)
PAT	426	459	621	831
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	426	459	621	831
Net Income (Adjusted)	426	459	621	831

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	2,353	1,821	2,107	2,445
of which cash & cash eqv.	226	146	162	213
Total Current Liabilities & Provisions	559	517	534	552
Net Current Assets	1,794	1,303	1,573	1,893
Investments	47	50	52	55
Net Fixed Assets	2,478	5,189	5,130	5,017
ROU Assets	188	188	188	188
Capital Work-in-Progress	2,670	670	670	670
Total Intangible Assets	691	691	691	691
Other assets	1,252	1,704	1,980	2,271
Deferred Tax assets	42	42	42	42
Total Assets	9,163	9,838	10,327	10,827
Liabilities				
Borrowings	2,568	2,768	2,618	2,268
Deferred Tax Liability	92	92	92	92
provisions	2	-	-	-
other Liabilities	250	263	276	290
Equity Share Capital	6,129	6,588	7,209	8,040
Reserves & Surplus	-	-	-	-
Total Net Worth	6,129	6,588	7,209	8,040
Minority Interest	-	-	-	-
Total Liabilities	9,163	9,838	10,327	10,827

Source Company data, I-Sec research

Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	1,027	1,199	983	1,191
Working Capital Changes	86	432	(241)	(254)
Capital Commitments	(1,840)	(1,252)	(602)	(603)
Free Cashflow	2,867	2,451	1,585	1,794
Other investing cashflow	(1,010)	-	-	-
Cashflow from Investing Activities	(2,850)	(1,252)	(602)	(603)
Issue of Share Capital	-	-	-	-
Interest Cost	(101)	(232)	(220)	(192)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
Others	438	205	(145)	(345)
Cash flow from Financing Activities	337	(27)	(365)	(537)
Chg. in Cash & Bank balance	(1,486)	(80)	16	52
Closing cash & balance	(886)	146	162	213

Source Company data, I-Sec research

Exhibit 17: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	8.0	8.6	11.7	15.6
Adjusted EPS (Diluted)	8.0	8.6	11.7	15.6
Cash EPS	15.6	18.8	24.1	29.0
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	115.2	123.8	135.5	151.1
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	4.6	36.1	16.2	14.7
EBITDA	(23.1)	24.8	20.3	18.4
EPS (INR)	(47.2)	7.7	35.3	33.7
Valuation Ratios (x)				
P/E	54.6	50.7	37.4	28.0
P/CEPS	28.0	23.3	18.2	15.1
P/BV	3.8	3.5	3.2	2.9
EV / EBITDA	25.6	20.7	17.1	14.2
P / Sales	7.8	5.8	5.0	4.3
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	72.3	67.1	67.5	67.7
EBITDA Margins (%)	33.7	30.9	32.0	33.0
Effective Tax Rate (%)	29.8	30.0	25.2	25.2
Net Profit Margins (%)	14.4	11.4	13.3	15.5
NWC / Total Assets (%)	22.1	15.8	17.4	19.3
Net Debt / Equity (x)	0.4	0.4	0.3	0.2
Net Debt / EBITDA (x)	2.3	2.1	1.6	1.1
Profitability Ratios				
RoCE (%)	6.2	6.5	7.8	9.2
RoE (%)	7.2	7.2	9.0	10.9
RoC (%)	6.5	6.7	7.9	9.4
Fixed Asset Turnover (x)	0.4	0.4	0.4	0.5
Inventory Turnover Days	162	88	82	81
Receivables Days	98	78	73	73
Payables Days	18	11	10	10

Source Company data, I-Sec research

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