Tarsons Products Limited

November 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	60.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Long Term Bank Facilities	122.56 (Reduced from 122.59)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	15.00	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Assigned
Short Term Bank Facilities	10.00	CARE A1+ (A One Plus)	Assigned
Short Term Bank Facilities	25.00	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
Total Bank Facilities	**232.56 (₹ Two Hundred Thirty-Two Crore and Fifty-Six Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the Short-Term Bank Facilities of Tarsons Products Limited (TPL) is on account of sustained healthy liquidity position backed by significant improvement in the total operating income (TOI) in FY22 (refers to the period April 1 to March 31) and H1FY23 while maintaining healthy profitability. The rating also takes into consideration established brand presence of TPL in the domestic plastic laboratory ware industry aided by its diversified product portfolio and strong distribution network. With the growing demand from pharmaceutical, medical research and diagnostics segments, there has been significant boost in demand potential for TPL's products. Presence of TPL in the export market provides geographical diversification to the revenue profile of the company and mitigates the forex fluctuation risk on imports to an extent. The ratings also derive comfort from the healthy return indicators along with its comfortable capital structure and debt coverage indicators.

The company raised Rs.150 crore through the IPO in November 2021 and utilized part of the proceeds towards reduction in debt and balance available with the company shall be utilized towards capex. The company has around Rs.61 crore of unutilized IPO proceeds for capex as on June 30, 2022.

The ratings take note of the significant capex being implemented by the company towards increasing existing capacities, setting up new capacities and improvement in infrastructure. While the increase in capacity would enable TPL to meet increasing demand of existing products, and foray into untapped market of newer products (mainly cell culture), risk associated with entry into new products where company is yet to establish its credential & potential remains to be key monitorable. The capex is being majorly funded out of internal cash generations with some portion to be funded out of proceeds raised through IPO. However, the company remains exposed to the pre-implementation and post-implementation risks associated with the projects.

Further, the ratings continue to remain constrained by the moderate scale of its operations, susceptibility of its profitability to volatility in raw material prices, working capital-intensive nature of operations with high inventory holding and high capital intensity of business with continuous capital expenditure requirement.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained increase in scale of operations (total operating income > Rs.600 crore) while maintaining healthy PBILDT margins, leverage and debt coverage indicators.
- Efficient management of working capital requirement resulting in operating cycle going below 120 days.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decrease in total operating income below Rs.250 crore and decline in PBILDT margin below 30% on a sustained basis.
- Increase in operating cycle beyond 225 days.
- Weakening of debt coverage indicators or increase in overall gearing beyond 0.50x with more than envisaged debt availed to fund capex or significant increase in working capital requirement.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record and established brand in the domestic market

TPL has been in the business of manufacturing and trading of plastic laboratory-ware products for over three decades. It has established itself in the domestic market and has presence in the export market (mainly in Europe and USA). The company is promoted by Sehgal family of Kolkata. The current promoters, Mr Sanjive Sehgal and Mr Rohan Sehgal, have significant experience in the business. In July 2018, Mr Sachin Sehgal (one of the co-promoters) exited the company and sold his stake to a private equity investor Clear Vision Investment Holding Pte Ltd (CVIHPL), Singapore. Currently, CVIHPL holds 23.42% stake in the company (post IPO) and the management control remains with Mr Sanjive Sehgal and his son Mr Rohan Sehgal. The company came out with an IPO in November 2021 whereby it raised Rs.150 crore of fresh equity. The company sells its products under the brand 'Tarsons' which is well accepted in the market.

Wide product portfolio with strong distribution network

TPL manufactures a wide range of products (about 1700 SKUs among 300 product lines) comprising consumables, re-usables and scientific instruments. The major customers for these products include scientific research organisations, contract research organisations, hospitals, pharma, diagnostic centres, education institutions, R & D centres of various industries, etc.
Majority of the sales are through an established distribution network. TPL currently has around 141 active domestic distributors and 45 active foreign distributors. Within India, the sales are regionally diversified with south contributing 35%, east 24%, west 19% and north 15% through distributors, and direct sales of about 7% (for FY22).

Increasing TOI with healthy profitability margin

The TOI of the company witnessed a significant growth of ~31% y-o-y in FY22 on account of overall increase in demand for products from pharma, diagnostics and research. The PBILDT margin witnessed a significant improvement from 46.25% in FY21 to 52.04% in FY22 with benefits of better economies of scale and better absorption of fixed costs. Interest coverage ratio also continues to remain comfortable at 37.90 times (PY 39.66 times) driven by healthy PBILDT margin.
In H1FY23 also, the company's TOI remained steady at Rs.139.87 crore against Rs.145.19 crore as on H1FY22 backed by steady demand. The PBILDT margin however witnessed slight moderation from about 52.04% in FY22 to 45.64% in H1FY23, largely on account of higher raw material prices and increased freight cost amidst Russia- Ukraine War along with change in product mix.

Comfortable capital structure and improvement in debt coverage indicators

The overall gearing of TPL is comfortable and witnessed improvement as on March 31, 2022. The capital structure is comfortable in spite of high capital intensity of business due to healthy cash flow from operation and consistent plough back of profit into the business over the years.
The debt equity and overall gearing ratio improved from 0.04x and 0.14x as on March 31, 2021, to 0.04x and 0.04x as on March 31, 2022 respectively. The improvement is mainly on account of accretion of profits to reserves. The debt coverage indicators also witnessed an improvement with TDGCA improving from 0.41x as on March 31, 2021, to 0.17x as on March 31, 2022 with improvement in GCA. The low debt levels allow better financial flexibility to the company which has also resulted into comfortable ROCE and RONW.
With the ongoing capex largely planned out of internal accruals and partly out of proceeds from the IPO with low level of debt expected to be availed, the capital structure is expected to remain comfortable going forward.

Low exposure to foreign exchange fluctuation risk

TPL's exposure to foreign exchange fluctuation risk is mitigated to a large extent, as the company enjoys natural hedge with exports and imports of raw materials/traded goods. The company imported goods of Rs.77 crore and exported goods of Rs.99.29 crore in FY22 (imports of Rs.72.04 crore and exports of Rs.75.59 crore in FY21). The company mainly pays in advance for imports and has low outstanding un-hedged foreign currency payables. However, the expected global slowdown in US and_European markets may have an impact on the company's export potential and will remain key monitorable over the medium term.

Growth potential for the plastic laboratory ware industry

The growth in the global laboratory ware is expected to be driven by the increase in spendings by private and government organizations for research activities, diagnostic services along with increase in number of research laboratories. Furthermore, various initiatives have been taken by the Government to enhance and promote research in academic institutions.
The plasticware segment is expected to witness considerable market growth on account of increase in cell culture and cryopreservation research and surge in demand for plastic based labware.

Key Rating Weaknesses

Moderate scale of operations

The company has moderate scale of operations. However, according to the management, it is one of the largest players in its addressable market in India. Further, the company is continuously growing through addition of new products and is currently in the process of capacity expansion of its existing facilities along with new products in new facilities. TOI for FY22 stood at Rs.307.02 crore vis-à-vis Rs.233.42 crore in FY21.

Long working capital cycle

The operations of TPL are working capital intensive in nature on account of high inventory and collection period. The operating cycle, continued to remain high at 211 days on account of high average inventory period along with low credit period from suppliers. The inventory period is high mainly due to stock maintained for large number of products sold by the company and it needs to maintain raw material inventory given the lead time in procurement. Average inventory period continued to remain on the higher side at 167 days in FY22. The average collection period stood 67 days in FY22 and in line with past year.

Susceptibility to fluctuation in raw material prices

Raw material consumption (including trading material and packing material) is the single largest cost component for TPL constituting about 66% of total cost of sales in FY22 (53% in FY21). Plastic granule is the primary raw material required for manufacturing plastic laboratory products. Majority of raw materials are imported from Singapore, Europe and USA. Although TPL does not face any difficulty in procurement of raw materials, it is exposed to the risk of volatility in raw material prices.

Project risk and continuous capex requirement in the industry

The players in the industry have to continuously make product innovations and introduce new products to increase market share and remain competitive which requires capex. Further, maintenance capex is also required for up-keep of machineries. Thus, the business operations are capital-intensive in nature.

TPL has planned large capex projects aggregating to around Rs.500 crore over a period of four years (FY22-FY25) mainly for capacity expansion in filter tips and other plastic labware along with setting up of new unit for cell culture, radiation plant and warehouse. The projects are proposed to be funded out of proceeds received from IPO along with internal generations of the company. The company has already incurred capex of around Rs.100 crore (including CWIP) in FY2022.

Nonetheless, the risk associated with entry into new products where company is yet to establish its credential and potential along with timely completion of the projects and deriving the envisaged benefits out of the same remains crucial.

Liquidity analysis: Strong

TPL's liquidity is marked by healthy accruals against low debt repayment obligations of Rs.11.26 crore in FY23. The average fund-based working capital limit utilization stood at 25.91% during the last 12 months ended August 2022. With low gearing as on March 31, 2022, the company has sufficient gearing headroom to raise additional debt for its capex. The company is planning to deploy its surplus cash accruals in various capex projects over the next three years (FY23-FY25). The company had free cash and cash equivalents of Rs.77.44 crore as on March 31, 2022, including Rs 62 crores of unutilized IPO funds earmarked for capex.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Liquidity analysis of Non-financial sector entities

About the Company

TPL, promoted in July 1983 by Sehgal family of Kolkata, is engaged in manufacturing and trading of plastic laboratory products and certain scientific instruments, with five manufacturing facilities in West Bengal. The company is coming up with units in Panchala and Amta in West Bengal for capacity addition and new product launch along with warehousing facility, fulfilment centre and radiation plant. The products find usage in laboratories engaged in research on molecular biology, cell culture, genomics, proteonomics, immunology, etc. The company also has presence in the export market with exports comprising 33% of sales in FY22 (33% in FY21).

TPL came up with an IPO in November 2021 post which it got listed on BSE and NSE. The company raised funds of Rs.150 crore from IPO in its books and CVIHPL and promoters (Mr Sanjive Sehgal and Mr Rohan Sehgal) offered a part of its shareholding for sale against which they received Rs.827 crore and Rs.47 crore respectively.

Brief Financials (Rs. crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
TOI	233.42	307.02	139.87
PBILDT	107.95	159.77	63.83
PAT	68.87	100.66	41.77
Overall gearing (times)	0.14	0.04	0.12
Interest coverage (times)	39.66	37.90	55.03

A: Audited; UA: Unaudited; Ratios are classified as per CARE Ratings Standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Facilities	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft	-	-	-	-	2.00	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	-	62.00	CARE A+; Stable
Fund-based/Non-fund-based-Short Term	-	-	-	-	25.00	CARE A1+
Non-fund-based - LT-Letter of credit	-	-	-	-	60.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	15.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	-	10.00	CARE A1+
Term Loan-Long Term	-	-	-	01/03/2025	58.56	CARE A+; Stable

Annexure-2: Rating History of last three years-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	62.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Mar-22)	1)CARE A; Stable (23-Mar-21)	1)CARE A-; Stable (16-Mar-20)

2	Term Loan-Long Term	LT	58.56	CARE A+; Stable	-	1)CARE A+; Stable (29-Mar-22)	1)CARE A; Stable (23-Mar-21)	1)CARE A-; Stable (16-Mar-20)
3	Fund-based - LT-Bank Overdraft	LT	2.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Mar-22)	-	-
4	Fund-based/Non-fund-based-Short Term	ST	25.00	CARE A1+	-	1)CARE A1 (29-Mar-22)	-	-
5	Non-fund-based - LT-Letter of credit	LT	60.00	CARE A+; Stable				
6	Non-fund-based - LT/ ST-BG/LC	LT/ST*	15.00	CARE A+; Stable / CARE A1+				
7	Non-fund-based - ST-Letter of credit	ST	10.00	CARE A1+				

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of Facilities	Complexity Level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based/Non-fund-based-Short Term	Simple
4	Non-fund-based - LT-Letter of credit	Simple
5	Non-fund-based - LT/ ST-BG/LC	Simple
6	Non-fund-based - ST-Letter of credit	Simple
7	Term Loan-Long Term	Simple

Annexure-5: Bank lender details for this company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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