Tarsons Products Limited

January 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	398.68 (Enhanced from 180.56)	CARE A+ (RWD)	Placed on Rating Watch with Developing Implications
Long-term / Short-term bank facilities	50.00	CARE A+ / CARE A1+ (RWD)	Assigned
Long-term / Short-term bank facilities	15.00	CARE A+ / CARE A1+ (RWD)	Placed on Rating Watch with Developing Implications
Short-term bank facilities	29.00	CARE A1+ (RWD)	Assigned
Short-term bank facilities	10.00	CARE A1+ (RWD)	Placed on Rating Watch with Developing Implications
Long-term bank facilities	-	-	Withdrawn@
Short-term bank facilities	-	-	Withdrawn@

Details of facilities in Annexure-1.
@The ratings have been withdrawn due to reclassification of certain bank facilities wherein new rating has been assigned for Rs.50 crore.

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings assigned to the bank facilities of Tarsons Products Limited (TPL) on 'Rating watch with Developing implications' following announcement on acquisition of two foreign entities as step down subsidiaries. While the initial cost of acquisition is estimated at 10-15 million euros, the same is subject to closing adjustments. Completion of overall transaction and impact on the capital structure of TPL along with funds invested will remain key monitorable. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

The ratings continue to derive strength from established brand presence of TPL in the domestic plastic laboratory ware industry aided by its diversified product portfolio and strong distribution network. With slowdown in the industry and reducing demand for plastic ware products, the total operating income (TOI) witnessed decline in FY23 (refers to the period April 01 to March 31) and H1FY24. The decline in TOI resulting in lower economies of scale led to decline in operating margins in FY23. Further comfortable capital structure and debt coverage indicators, low exposure to foreign exchange fluctuation risk and growth potential for the plastic laboratory ware industry continues to support the overall rating profile.

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 period, project implementation and stabilisation risk and high capital intensity of business with continuous capital expenditure requirement.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- Decrease in operating income below Rs.250 crore and decline in PBILDT margin below 30% on a sustained basis.
- Sustained increase in operating cycle beyond 225 days.
- Weakening in debt coverage indicators with Total Debt/PBILDT beyond 3x with debt availed to fund capex or significant increase in working capital requirement on a sustained basis.

Analytical approach: Standalone. The company has recently formed a wholly owned subsidiary named Tarsons Life Science Pte. Ltd (TLSPL). The wholly owned subsidiary is incorporated in Singapore with primary objective to engage in investment activities related to the business of TPL. TLSPL has recently acquired two German entities, however, due to lack of information

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

and clarity of the impact of the acquisition on the business of TPL going forward, CARE has continued with Standalone approach currently.

Detailed description of the key rating drivers

Key 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 four 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 138 active domestic distributors and 45 active foreign distributors. Within India, the sales are regionally diversified with south contributing 43%, east 15%, west 25% and north 17% through distributors, and direct sales of about 0.10% (for FY23).

Slight moderation in TOI however supported by healthy profitability margins in FY23

The TOI of the company witnessed slight moderation of about 5.3% in FY23 on account of slow down in industry and reducing demand for plastic ware products. The revenue also remained lower as the demand for Covid related products has seen a sizeable drop as compared to FY22. PBILDT margin also witness slight moderation to 47.20% in FY23 against 52.04% in FY22 on account of slowdown in industry resulting in lower economies of scale. Sustained healthy operating margins with steady capital costs supported PAT margin at 27.77% in FY23. The company earned GCA of Rs.110.28 crore vis-à-vis debt repayment obligation of Rs.11.26 crore in FY23.

In H1FY24, the company achieved TOI of Rs.128.88 crore vis-à-vis Rs.139.87 crore in H1FY23. The overall sales remained lower by about 7.9% y-o-y on account of the life sciences sector experiencing a slight slowdown along with geopolitical tensions, global recessionary trends and unwinding of old inventories lying with the customers. The PBILDT margin stood at 36.21% in H1FY24 as against 45.64% in H1FY23, largely on account of expenses incurred on acquisition and other capex based spend. Nonetheless the gross margins remained more or less similar y-o-y.

Comfortable capital structure and debt coverage indicators

The overall gearing continues to remain comfortable despite slight moderation from 0.04x as on March 31, 2022 to 0.19x as on March 31, 2023 on account of higher debt levels. The debt has largely increased to fund a portion of the ongoing capex in Panchla and Amta units. 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 coverage indicators continue to remain healthy with slight moderation in interest coverage to 30.71x in FY23 as against 37.90x in FY22. TDGCA also remained healthy at 1.00x as on March 31, 2023 as against 0.17x as on March 31, 2022. With the ongoing capex largely planned out of internal accruals and partly out of proceeds from the IPO with moderate 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.114 crore and exported goods of Rs.92 crore in FY23 (imports of Rs.77 crore and exports of Rs.99 crore in FY22). 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 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 the addition of new products and is currently in the process of capacity expansion of its existing facilities along with new products in new facilities. Also, the company has acquired two new subsidiaries in Germany which would help the company increase their scale through increase in product line and their reach to European markets. TOI for FY23 stood at Rs. 290.68 crore vis-à-vis Rs. 307.02 crore in FY22.

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 304 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. The average inventory period continued to remain on the higher side at 247 days in FY23. The average collection period stood 83 days in FY23, slightly higher than last 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 50% of total cost of sales in FY23 (54% in FY22). Plastic granule is the primary raw material required for manufacturing plastic laboratory products. Majority of raw materials are imported from Singapore, Europe and USA. TPL is facing some temporary difficulty on account of implementation of BIS (Bureau of Indian Standards). Further it is also 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 more than Rs.700 crore over a period of five years (FY21-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 being funded out of internal generations of the company, term debt along with proceeds received from IPO. The company has already incurred capex of around Rs.352 crore till August 2023.
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 strong with cash and bank balance of Rs.59.05 crore as on March 31, 2023 (Rs.36.36 crore marked for capex). The company has moderate debt repayment obligations in the range of Rs.34-40 crore in FY24 against which it is expected to generate healthy cash accruals. The average fund-based working capital limit utilisation stood at 9% during the last 12 months ended August 2023. With low gearing as on March 31, 2023, 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 (FY24-FY26) along with the acquisition of two new foreign entities. Further the CFO also remained healthy at Rs.75.59 crore in FY23.

Environment, social, and governance (ESG) risks

Tarsons being a leading player in labware market has been cautious of its environment impact. Some of the policies favouring environment are use of medical grade plastic and no hazardous materials consumed. Further the company has no litigations faced for pollution or degradation of environment over the past five years.
In terms of social risk, the company has made an advance CSR expenditure amounting to Rs.3.31 crore in FY21 by donating KN-95 mask with and without valve to Tata Medical Centre, Kolkata, Rabindranath Tagore International Institute of Cardiac Science (Narayana Hrudayalaya Limited) and in the local area and community directly. During FY23, the company has utilized Rs.1.85 crore from the advance CSR obligation. Further in the ongoing fiscal of FY24 the company has so far made an expenditure of Rs 1.50 crore towards to Tata Medical Centre. The company also promotes supporting and promoting internal networks and employee

resource groups, aimed at uplifting and creating a sense of belonging for diverse and underrepresented groups. Providing learning and development opportunities to raise awareness and offer practical guidance related to diversity and inclusion.
The Governance has remained healthy with the Board having combination of Executive and Non-Executive Directors. Clean track record of liability payments to various stakeholders and regular review and update of policies to incorporate changes. Also there has been no whistle-blower complaints received during FY23 by the company.

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Plastic Products - Industrial

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.
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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	307.02	290.68	128.88
PBILDT	159.77	137.20	46.67
PAT	100.66	80.71	22.40
Overall gearing (times)	0.04	0.19	0.21
Interest coverage (times)	37.90	30.71	13.93

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'; 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

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook

Fund-based - LT-Bank Overdraft		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	62.00	CARE A+ (RWD)
Fund-based - ST-Working Capital Demand loan		-	-	-	29.00	CARE A1+ (RWD)
Fund-based/Non-fund-based-Short Term		-	-	-	0.00	Withdrawn
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	50.00	CARE A+ / CARE A1+ (RWD)
Non-fund-based - LT-Letter of credit		-	-	-	60.00	CARE A+ (RWD)
Non-fund-based - LT/ ST-BG/LC		-	-	-	15.00	CARE A+ / CARE A1+ (RWD)
Non-fund-based - ST-Letter of credit		-	-	-	10.00	CARE A1+ (RWD)
Term Loan-Long Term		-	-	December 2030	276.68	CARE A+ (RWD)

Annexure-2: Rating history for the 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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	62.00	CARE A+ (RWD)	-	1)CARE A+; Stable (07-Nov-22)	1)CARE A+; Stable (29-Mar-22)	1)CARE A; Stable (23-Mar-21)
2	Term Loan-Long Term	LT	276.68	CARE A+ (RWD)	-	1)CARE A+; Stable (07-Nov-22)	1)CARE A+; Stable (29-Mar-22)	1)CARE A; Stable (23-Mar-21)
3	Fund-based - LT-Bank Overdraft	LT	-	-	-	1)CARE A+; Stable (07-Nov-22)	1)CARE A+; Stable (29-Mar-22)	-
4	Fund-based/Non-fund-based-Short Term	ST	-	-	-	1)CARE A1+ (07-Nov-22)	1)CARE A1 (29-Mar-22)	-

5	Non-fund-based - LT-Letter of credit	LT	60.00	CARE A+ (RWD)	-	1)CARE A+; Stable (07-Nov-22)	-	-
6	Non-fund-based - LT/ ST-BG/LC	LT/ST*	15.00	CARE A+ / CARE A1+ (RWD)	-	1)CARE A+; Stable / CARE A1+ (07-Nov-22)	-	-
7	Non-fund-based - ST-Letter of credit	ST	10.00	CARE A1+ (RWD)	-	1)CARE A1+ (07-Nov-22)	-	-
8	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	50.00	CARE A+ / CARE A1+ (RWD)				
9	Fund-based - ST-Working Capital Demand loan	ST	29.00	CARE A1+ (RWD)				

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - ST-Working Capital Demand loan	Simple
4	Fund-based/Non-fund-based-Short Term	Simple
5	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
6	Non-fund-based - LT-Letter of credit	Simple
7	Non-fund-based - LT/ ST-BG/LC	Simple
8	Non-fund-based - ST-Letter of credit	Simple
9	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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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About us:
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