Tarsons Products Private Limited

March 23, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term bank facilities	83.29	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Total Bank Facilities	**83.29 (Rs. Eighty-Three Crore and Twenty-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Tarsons Products Private Limited (TPPL) takes into account the substantial increase in operating income and profitability in 9MFY21 (refers to the period April 1 to December 31) after a relatively stable performance in FY20.

Demand for products manufactured by the company (like filter tips) has witnessed significant improvement in the current year with higher testing requirements due to outbreak of Covid-19 and increased focus on healthcare.

The ratings continue to draw comfort from the healthy operating profitability, comfortable capital structure and debt coverage indicators. The ratings also factor in the long experience of the promoters, satisfactory track record of the company, wide product portfolio with established brand in the domestic market, strong distribution network and growth potential for the laboratory ware industry.

The ratings, however, remain constrained by the moderate scale of operations, high capital intensity of business with continuous capital expenditure requirement, long operating cycle and volatile raw material prices. The ratings also take note of the risk associated with the large size capital expenditure being planned by the company. However, the company proposes to fund the projects majorly out of internal generations and the progress on the project would depend on availability of internal accruals.

Rating Sensitivities

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

- Sustained increase in scale of operations (operating income > Rs.500 crore) while maintaining profitability margins.
- Efficient management of working capital requirement and operating cycle going below 175 days.
- Total Debt/Gross Cash Accruals remaining less than unity on a sustained basis.

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

- Decrease in operating income below Rs.150 crore and decline in PBILDT margin below 30% on sustained basis.
- Increase in operating cycle beyond 275 days.
- Weakening in debt coverage indicators or increase in overall gearing beyond 0.50x with 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 experience of the promoters TPPL has been in the business of manufacturing and trading of plastic laboratory ware products for over three decades. The current promoter, Mr. Sanjive Sehgal has 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. CVIHPL holds 49% stake in the company and management control remains with Mr. Sanjive Sehgal.

Wide product portfolio with established brand in the domestic market and strong distribution network

TPPL manufactures a wide range of products (around 3000 types) comprising consumables, re-usable and scientific instruments. The major customers for these products include scientific research organisations, contract research organisations, hospitals, diagnostic centres, education institutions, R & D centres of various industries, etc. TPPL has been successful in building a strong distribution network for marketing its products. It sells its products under the brand, 'Tarsons' which is well accepted in the market.

Healthy profitability margins

The gross sales have been witnessing improvement over the last few years. However, in FY20 operating income was marginally lower at about Rs.177 crore (Rs.190 crore in FY19) due to the impact of lockdowns on account of outbreak of Covid-19 towards the end of the year.

The PBILDT and PAT margin continued to remain relatively stable and healthy at 40.10% and 21.73% respectively in FY20.

The company achieved substantial growth in its net profit at Rs.51.20 crore on total operating income of Rs.165.66 crore in 9MFY21 as against net profit of Rs.24.97 crore on total operating income of Rs.123.78 crore in 9MFY20. PBILDT margin also

[1]*Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications*

improved to about 50% in 9MFY21 vis-à-vis 39% in 9MFY20. The improvement in sales and profitability was driven by the increase in demand for products like filter tips required for Covid testing.

Comfortable capital structure and debt coverage indicators

The capital structure of TPPL 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.

Debt equity and overall gearing ratio improved at 0.09x and 0.17x as on March 31, 2020 as compared to 0.37x and 0.46x respectively as on March 31, 2019. The debt coverage indicators remained healthy with PBILDT interest coverage and Total Debt/GCA at 11.56x and 0.66x respectively in FY20 as against 10.44x and 1.17x respectively in FY19.

Growth potential for the plastic laboratory ware industry

The ongoing pandemic has called for increased focus on healthcare worldwide and higher government spending on research. This increased focus on R&D in the country both by the Government and the private sector, the growth of Contract Research and Manufacturing Services (CRAMS) in India, outsourcing of R&D services in India and untapped opportunity in the international market shall bode well for domestic laboratory ware manufacturers like TPPL. However, the industry is fragmented in nature and TPPL continues to face competition from international and domestic players for its various products.

Key Rating Weaknesses

Moderate scale of operations

TPPL is a relatively smaller player in the plastic laboratory ware products industry with net sales of Rs.172 crore in FY20. However, the scale of operation has been witnessing growth.

Long working capital cycle

The operation of the company is working capital intensive in nature. The operating cycle continued to remain high at 243 days in FY20 (223 days in FY19) mainly on account of high average inventory period along with low credit period from suppliers. 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. Inventory period increased from 144 days in FY19 to 172 days in FY20. Average collection period remained stable at 92 days in FY20.

Project risk and continuous capex requirement in the industry

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

TPPL has planned large capex projects aggregating to around Rs.160 crore mainly for setting up a radiation plant and capacity expansion for various products to be completed by FY23. The projects are proposed to be majorly funded out of internal accruals and the progress on the project would depend on availability of internal accruals. Timely completion of the projects and deriving the envisaged benefits remain crucial.

Susceptibility to fluctuation in raw material prices

Raw material consumption (including trading material) is the single largest cost component for TPPL constituting about 55% of total cost of sales in FY20 (60% in FY19). Plastic granule is the primary raw material required for manufacturing plastic laboratory products.

Majority of raw materials (around 81% in value terms in FY20 vis-à-vis 84% in FY19) are imported. Although TPPL does not face any difficulty in procurement of raw materials and increases the prices of its products but with a short time lag, lack of any long-term contract with the suppliers exposes it to the risk of volatility in raw material prices.

Liquidity: Strong

Liquidity is marked by strong accruals against low repayment obligations of Rs.7.27 crore in FY21. The company has used internal generations to fund its working capital requirements and the average month-end working capital limit utilization of the company stood moderate at around 45% during the last 12 months ended December'20.

Furthermore, with an overall gearing of 0.17x as of March 31, 2020, the company has sufficient gearing headroom to raise additional debt for its capex. Its unutilized bank lines are also adequate to meet its incremental working capital requirements over the next one year.

Analytical Approach: Standalone

Applicable Criteria:

CARE's Policy on Default Recognition
Rating Methodology – Outlook and Placing ratings under credit watch
Rating Methodology-Manufacturing Companies
Financial Ratios - Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

TPPL, 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 products find usage in laboratories engaged in research on molecular biology, cell culture, genomics, proteonomics, immunology, etc.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	189.64	176.96
PBILDT	78.18	70.96
PAT	39.87	38.46
Overall gearing (times)	0.46	0.17
Interest coverage (times)	10.44	11.56

A – Audited

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 the rated instrument / facilities - Please refer Annexure-3

Complexity level of various instruments - Please refer Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	42.00	CARE A; Stable
Term Loan-Long Term	-	-	March 2023	41.29	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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	42.00	CARE A; Stable	-	1)CARE A-; Stable (16-Mar-20)	1)CARE A-; Stable (18-Mar-19)	1)CARE A-; Stable (19-Dec-17)
2.	Term Loan-Long Term	LT	41.29	CARE A; Stable	-	1)CARE A-; Stable (16-Mar-20)	1)CARE A-; Stable (18-Mar-19)	1)CARE A-; Stable (19-Dec-17)

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 the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Term Loan-Long Term	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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