Tarsons Products Limited

March 29, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	2.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Long Term Bank Facilities	120.59 (Enhanced from 83.29)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short Term Bank Facilities	25.00	CARE A1 (A One)	Assigned
Total Bank Facilities	**147.59 (Rs. One Hundred Forty-Seven Crore and Fifty-Nine Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long-term rating and assignment of short-term rating for the bank facilities of Tarsons Products Limited (TPL; erstwhile Tarsons Products Private Limited) considers significant improvement in the total operating income (TOI) of the company in 9MFY22 (refers to the period April 1 to December 31) while maintaining healthy profitability. The company had reported significant improvement in TOI in FY21 (about 30% over FY20) which has continued in the current financial year as well. TPL continues to have an established brand presence 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, partly driven by the ongoing pandemic, there is significant demand potential for the products of TPL. Presence of TPL in the export market with an increasing trend in export sales provides geographical diversification to the revenue profile of the company and mitigates the forex fluctuation risk on imports. The ratings also derive comfort from the healthy return indicators along with its comfortable capital structure and debt coverage indicators.

The ratings also take note of the successful Initial Public Offering (IPO) of the company in November 2021. The company raised Rs.150 crore through the IPO and utilized part of the proceeds towards reduction in debt and balance available with the company shall be utilized towards its capex commitments.

The ratings take note of the significant capex projects being implemented by the company towards increase in existing capacities, setting up new capacities and improvement in infrastructure. While the increase in capacity for existing products is expected to help TPL in meeting the currently increasing demand for such products, foray into newer products (mainly cell culture) is expected to aid the company in entering the untapped market for these products in India. 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.

The ratings, however, 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 150 days.

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

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

the company (post IPO) and the management control remains with Mr Sanjive Sehgal and his son Mr Rohan Sehgal. The company came out with a successful 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 142 active domestic distributors and 45 active foreign distributors. Within India, the sales are regionally diversified with south contributing 36%, east 21%, west 18% and north 15% through distributors, and direct sales of about 9%.

Increasing TOI with healthy profitability margins
The TOI of the company witnessed a significant growth of 30% y-o-y in FY21 on account of overall increase in demand for products from pharma, diagnostics and research. The PBILDT margin witnessed a significant improvement from 40.72% in FY20 to 46.31% in FY21 on account of reduction in travelling and advertisement costs along with benefits of better economies of scale with increase in gross margins. With improvement in PBILDT and reduction in interest cost, PBILDT interest coverage ratio also witnessed significant improvement in FY21. The improved operating margins along with reduction in capital costs led to improvement in PAT margin in FY21.
In 9MFY22 also, the company's TOI witnessed a significant growth of 34% y-o-y on account of increase in demand from pharma and research segments leading to increase in sales of both consumables and reusables. PBILDT margin also witnessed significant improvement from 43.62% in 9MFY21 to 51.52% in 9MFY22 on account of increase in gross margin, better productivity and better spread of fixed costs. With improvement in operating margins, PAT margin also witnessed an improvement, despite increase in capital costs in 9MFY22.

Comfortable capital structure and debt coverage indicators
The overall gearing of TPL remained comfortable as on March 31, 2021. The capital structure is comfortable despite high capital intensity of the business due to healthy generation of 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 0.10x and 0.18x as on March 31, 2020 to 0.04x and 0.14x as on March 31, 2021 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 0.67x as on March 31, 2020 to 0.41x as on March 31, 2021 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 improvement witnessed in FY21 compared with FY20.
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.72.04 crore and exported goods of Rs.75.59 crore in FY21 (imports of Rs.63.75 crore and exports of Rs.44.53 crore in FY20). The company mainly pays in advance for imports and has low outstanding un-hedged foreign currency payables.

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 FY21 stood at Rs.233.72 crore vis-à-vis Rs.179.91 crore in FY20.
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, though witnessed an improvement in FY21 compared with FY20, continued to remain high at 194 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 144 days in FY21, though witnessed an improvement from 167 days in FY20.
In FY21, the average collection period witnessed an improvement from 90 days in FY20 to 67 days in FY21 despite increase in trade receivables in FY21 on account of averaging effect and increase in scale of operations.

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 58% of total cost of sales in FY21 (55% in FY20). Plastic granule is the primary raw material required for manufacturing plastic laboratory products. Majority of raw materials (around 77-78% in value terms in FY21 vis-à-vis 81% in FY20) 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.313 crore over a period of three years (FY22-FY24) 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.70-80 crore in the current financial year till February 2022. The timely completion of the projects and deriving the envisaged benefits out of the same remains crucial.

Liquidity analysis: Adequate
TPL's liquidity is marked by adequate accruals against low debt repayment obligations of Rs.14.05 crore in FY22. The company has already repaid Rs.11.25 crore till December 31, 2021 and for the balance Rs.2.8 crore payable in Q4FY22, the company is expected to generate healthy cash accruals. This apart, the company has also prepaid Rs.18.05 crore loan (including loan raised by the company in FY22) in the current year. The average fund-based working capital limit utilisation stood at 64% during the last 12 months ended January 2022. With low gearing as on March 31, 2021, 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 (FY22-FY24). The company had free cash and cash equivalents of Rs.9.20 crore as on December 31, 2021 along with unutilised line of credit of Rs.50 crore as on that date. Further, the company has Rs.72 crore parked in its fixed deposits which is earmarked for capex funding.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Criteria for Short term Instruments

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 FY21 (25% in FY20).
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)	FY20 (A)	FY21 (A)	9MFY22 (UA)
TOI	179.91	233.72	221.74
PBILDT	73.26	108.24	114.25
PAT	40.53	68.87	71.20
Overall gearing (times)	0.18	0.14	NA
Interest coverage (times)	12.00	39.77	30.39

A: Audited; UA: Unaudited; NA: Not 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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	62.00	CARE A+; Stable
Term Loan-Long Term		-	-	March 2025	58.59	CARE A+; Stable
Fund-based - LT-Bank Overdraft		-	-	-	2.00	CARE A+; Stable
Fund-based/Non-fund-based-Short Term		-	-	-	25.00	CARE A1

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	62.00	CARE A+; Stable	-	1)CARE A; Stable (23-Mar-21)	1)CARE A-; Stable (16-Mar-20)	1)CARE A-; Stable (18-Mar-19)
2	Term Loan-Long Term	LT	58.59	CARE A+; Stable	-	1)CARE A; Stable (23-Mar-21)	1)CARE A-; Stable (16-Mar-20)	1)CARE A-; Stable (18-Mar-19)
3	Fund-based - LT-Bank Overdraft	LT	2.00	CARE A+; Stable				
4	Fund-based/Non-fund-based-Short Term	ST	25.00	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 instrument	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	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 instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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