Tarsons Products Private Limited

March 1, 2017

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term bank facilities	88.71 (enhanced from 67.51)	**CARE BBB+; Positive (Triple B Plus; Outlook: Positive)**	**Reaffirmed**
Total Bank Facilities	**88.71 (Rs. Eighty Eight crore and Seventy One lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Tarsons Products Private Limited (TPPL) continues to draw strength from the rich experience of the promoters, satisfactory track record of the company, wide product portfolio with established brand in the domestic market, strong distribution network, healthy operating margins and high growth potential for the plastic laboratory ware products industry.

The rating, however, continues to be constrained by the moderate, though growing, scale of operations with continuous capital expenditure requirement, volatile raw material prices, working capital intensive nature of operations with long operating cycle and dependence of company's prospects on Government spending on research work.

Maintaining profitability amidst volatile input prices, effective management of working capital, improvement in capital structure and debt coverage indicators and deriving envisaged benefits from the ongoing expansion project are the key rating sensitivities.

Outlook: Positive

The outlook is 'Positive' on the expectation of improvement in scale of operation through introduction of new products and increase in market share alongwith continued high operating profitability and expected improvement in debt coverage indicators. The outlook may be revised to 'Stable' if the company is unable to ramp up scale of operations and derive benefit from the expansion capex as envisaged.

Detailed Description of 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 promoters have over five decades of experience in manufacturing plastic laboratory ware products.

Wide product portfolio with established brand in the domestic market & strong distribution network: TPPL manufactures a wide range of products (about 1800 types), comprising consumables, re-usables 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.

Improvement in operating margin: Net sales increased by about 19% in FY16 as compared with FY15. The significant increase was primarily attributable to increase in product prices coupled with higher sale of higher value products. PBILDT margin increased in FY16 due to increase in product prices with decline in raw material cost and remained healthy. Interest coverage improved and continued to remain comfortable.

Key Rating weaknesses

Moderate size of the company though increasing scale of operations: TPPL is a relatively small player in the plastic laboratory ware products industry with net sales of Rs.123.44 crore in FY16 of which trading sales were Rs.21.6 crore. However, the scale of operation has witnessed continuous growth in the last few years.

Long working capital cycle: The operation of the company is working capital intensive in nature. Operating cycle deteriorated to 217 days in FY16 as compared with 188 days in FY15 on account of higher collection and inventory period.

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

Inventory period is high mainly due to stock maintained for large number of products sold by the company and raw material inventory.

Dependence of company's prospects on Government spending on research work: Plastic laboratory products are used in various types of research laboratories including molecular biology, cell culture, genomics, proteonomics and immunology. Considering the expenditure by the government on R&D which has an important role in building any economy, various measures are being undertaken by the Government to ensure adequate thrust in this area.

Susceptibility to fluctuation in raw material prices: Raw material consumption (including trading material), constituted about 67% of total cost of sales in FY16. Plastic granule is the primary raw material required for manufacturing plastic laboratory products. Majority of these raw materials (around 79% in value terms in FY16) are imported. Although TPPL does not face any difficulty in procurement of raw materials, lack of any long-term contract with its suppliers exposes it to the risk of volatility in raw material prices.

Project risk and continuous capex requirement in the industry: The company is expanding its manufacturing facilities at a total cost of Rs.35 crore which is being financed with term debt of Rs.25 crore and internal generations of Rs.10 crore. Further, the company is required to do capex regularly to remain competitive and introduce product innovations to increase market share. Timely completion of the project and deriving the envisaged benefits remain crucial.

Analytical Approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company
TPPL, promoted in July 1983 by Sehgal family of Kolkata (with late Mr. Satish Kumar Sehgal being the main promoter), is engaged in manufacturing and trading of plastic laboratory products and certain scientific instruments, with five manufacturing facilities (two added post completion of a group company in March 2014) in West Bengal. The products find usage in laboratories engaged in research on molecular biology, cell culture, genomics, proteonomics, immunology, etc.
On total operating income of Rs.124.80 crore, TPPL reported a PAT (after deferred tax) of Rs.9.31 crore in FY16 vis-a vis PAT (after deferred tax) of Rs.10.17 crore on total operating income of Rs. 106.06 in FY15. In H1FY17, TPPL earned PAT of Rs.8.79 crore on operating income of Rs.62.61 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure 2

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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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 BBB+; Positive
Term Loan-Long Term	-	-	Sept. 2022	46.71	CARE BBB+; Positive

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Cash Credit	LT	42.00	CARE BBB+; Positive	-	1)CARE BBB+ (16-Feb-16)	1)CARE BBB (09-Dec-14)	1)CARE BBB (07-Jan-14)
2.	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (07-Jan-14)
3.	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST	-	-	-	-	1)Withdrawn (09-Dec-14)	1)CARE A3+ (07-Jan-14)
4.	Term Loan-Long Term	LT	46.71	CARE BBB+; Positive	-	1)CARE BBB+ (16-Feb-16)	1)CARE BBB (09-Dec-14)	1)CARE BBB (07-Jan-14)
5.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	-	1)Withdrawn (09-Dec-14)	1)CARE BBB (07-Jan-14)

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