Tarsons Products Private Limited

March 16, 2020

Ratings

Facilities	**Amount (Rs. Crore)**	**Rating[1]**	**Rating Action**
Long term bank facilities	**92.74**	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Total Bank Facilities	**92.74 (Rs. Ninety Two Crore and Seventy Four Lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale and Key rating drivers

The ratings assigned to the bank facilities of Tarsons Products Private Limited (TPPL) continue to draw strength from 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 plastic laboratory ware products industry.

The ratings also take into account the increase in total operating income with continued healthy profitability margins in FY19 (refers to the period April 1 to March 31), relatively stable performance in 9MFY20, comfortable capital structure and healthy debt coverage indicators.

The ratings, however, remain constrained by the moderate scale of operations, high capital intensity of business with continuous capital expenditure requirement and long operating cycle, major dependence on government spending in the area of research and volatile raw material prices.

Rating Sensitivities:

Positive rating sensitivities:

- Substantial increase in scale of operations while sustaining profitability margins at present levels.
- Improvement in working capital cycle (operating cycle < 150 days) on a sustained basis.
- Total Debt/Gross Cash Accruals remaining less than unity on a sustained basis.

Negative rating sensitivities:

- Decrease in operating income below Rs.150 crore and decline in PBILDT margin below 30% on a sustained basis
- Weakening in debt coverage indicators or increase in overall gearing beyond 0.75x with major debt funded capex undertaken or significant increase in working capital requirement.
- Further elongation of the operating cycle.

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 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. Currently, 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 (about 1,800 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. The company has also completed the capex for manufacturing of laboratory products used in serology apparatus; which were mainly imported.

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.

Increasing scale of operation with healthy profitability margins

The total operating income of the company continued to increase and witnessed a growth of 25% from Rs.151.70 crore in FY18 to Rs.189.64 crore in FY19. PBILDT margin continued to remain healthy and improved further from about 35% in FY18 to about 41% in FY19. The improvement was on account of marginal decrease in price of raw materials and higher margin in traded goods sold. Further, the margin in FY18 had been impacted on account of provisions for diminution in value of

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

investments and loans and advances to overseas subsidiary of Rs.7.25 crore.
Accordingly, with increase in PBILDT and stable capital charges, the PAT margin also improved from 12.47% in FY18 to 20.97% in FY19. GCA increased from Rs.30.95 crore in FY18 to Rs.54.62 crore in FY19.
The company achieved net profit of Rs.24.97 crore on total operating income of Rs.123.78 crore in 9MFY20 as against net profit of Rs.27.82 crore on total operating income of Rs.129.87 crore in 9MFY19. PBILDT margin remained healthy at about 39% in 9MFY20 (42.63% in 9MFY19).

Comfortable capital structure and debt coverage indicators
Debt equity and overall gearing ratio remained relatively stable at 0.37x and 0.46x as on March 31, 2019 as compared to 0.38x and 0.54x respectively as on March 31, 2018. However, total debt (excl. Compulsory Convertible Debentures of Rs.22 crore issued to CVIHPL) decreased as on March 31, 2019 with lower working capital borrowings and scheduled repayment of term debt obligations.
The debt coverage indicators have also remained healthy PBILDT interest coverage and TD/GCA at 10.44x and 0.76x respectively in FY19.

Low exposure to foreign exchange fluctuation risk
TPPL'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.61.43 crore in FY19 and exported goods of Rs.50.81 crore in FY19 (imports of Rs.42.21 crore and exports of Rs.38.23 crore in FY18).
The company pays for imports in advance in cash and had low outstanding un-hedged foreign currency payables of Rs.1.05 crore as on March 31, 2019 (Rs.1.30 crore as on March 31, 2018). The un-hedged foreign currency receivables stood at Rs.13.92 crore as on March 31, 2019 as against Rs.11.71 crore as on March 31, 2018.

Growth potential for the plastic laboratory ware products industry
Increasing 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 plastic laboratory ware manufacturers like TPPL. However, the industry is fragmented in nature and TPPL continues to face competition from international players for its various products.

Key Rating Weaknesses
Moderate, though increasing scale of operation
TPPL is a relatively small player in the plastic laboratory ware products industry with net sales of Rs.183.11 crore in FY19. 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. The operating cycle continued to remain at a high level of 223 days in FY19 (246 days in FY18) on account of high collection and 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 raw material inventory. The average inventory period was 144 days in FY19 vis-à-vis 158 days in FY18. Whereas, the average collection period is on the higher side as the sales are relatively skewed towards the year end. The collection period improved from 103 days in FY18 to 93 days in FY19.

Project risk and continuous capex requirement in the industry
The players in the industry, to increase their 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 undertaken capex for which it requires to incur Rs.40 crore in FY20 and Rs.45 crore in FY21 which shall be funded from internal accruals. The capex primarily includes new machineries and moulds. Timely completion of the project and deriving the envisaged benefits remain crucial.

Susceptibility to fluctuation in raw material prices
The raw material consumption (including trading material) constituted about 60% of total cost of sales in FY19 vis-à-vis 57% of cost of sales in FY18. Plastic granule is the primary raw material required for manufacturing plastic laboratory products. Majority of these raw materials (around 84% in value terms in FY19) 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.

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. Hence, the demand for such products is directly dependent on research activity being undertaken.

Liquidity: Strong
Liquidity is marked by strong accruals against repayment obligations of Rs.9.50 crore in FY20. The company has already repaid Rs.7.80 crore till December 31, 2019. The average working capital utilization of the company stood low at around 18% during the last 12 months ended October'19.
Further, with a gearing of 0.46x as of March 31, 2019, 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 needs over the next one year.

Analytical Approach: Standalone

Applicable Criteria:
CARE's Policy on Default Recognition
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology-Manufacturing Companies
Financial Ratios - Non Financial Sector

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. In July 2018, Mr. Sachin Sehgal along with his family members divested his stake in the company to a Singapore based private equity investor Clear Vision Investment Holdings PTE Ltd. (CVIHPL). Thereafter, Mr. Sanjive Sehgal (Chairman) purchased 1% of TPPL's share from CVIHPL to increase his stake to 51% and have the management control of the business.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	151.70	189.64
PBILDT	53.07	78.18
PAT	18.92	39.87
Overall gearing (times)	0.54	0.46
Interest coverage (times)	6.57	10.44

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of 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	-	-	June'2025	50.74	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	42.00	CARE A-; Stable	-	1)CARE A-; Stable (18-Mar-19)	1)CARE A-; Stable (19-Dec-17)	1)CARE BBB+; Positive (01-Mar-17)
2.	Term Loan-Long Term	LT	50.74	CARE A-; Stable	-	1)CARE A-; Stable (18-Mar-19)	1)CARE A-; Stable (19-Dec-17)	1)CARE BBB+; Positive (01-Mar-17)

***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.*

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Name: Ms Mamta Muklania
Contact no.: 033-4018 1651/98304 07120
Email ID: mamta.khemka@careratings.com

Business Development Contact
Name: Mr. Lalit Sikaria
Contact no.: 033-40181607
Email ID: lalit.sikaria@careratings.com

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