Tarsons Products Private Limited

March 18, 2019

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	**42.00**	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Long Term Bank Facilities	**59.34**	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Total Bank Facilities	**101.34 (Rupees One Hundred One crore and Thirty Four lakh only)**		

** Details of instrument/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, healthy profitability margins, comfortable capital structure and debt coverage indicators, 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 note of the partial stake sale by the promoter family in Q2FY19 to a Singapore based private equity investor, while retaining the management control.

The ratings, however, remain constrained by the moderate scale of operations, continuous capital expenditure requirement, volatile raw material prices, working capital intensive nature of operations with long operating cycle.

Maintaining profitability with increase in scale of operation, effective management of working capital and maintaining capital structure are the key rating sensitivities.

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. In July 2018, Mr. Sachin Sehgal (one of the 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 the existing promoters.

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.

Healthy profitability margins with comfortable capital structure

The gross sales of the company have gradually increased from Rs.113.68 crore in FY15 to Rs.148.71 crore in FY18. PBILDT margin continued to remain healthy at about 35% in FY18. It deteriorated marginally from 36.62% in FY17 on account of provision for diminution of value in investments and loans and advances to overseas subsidiary (Rs.7.25 crore). PAT margin continued to remain healthy. Interest coverage and TD/GCA also remained comfortable.

Debt equity and overall gearing ratio improved to 0.38x and 0.54x as on Mar.31, 2018 from 0.43x and 0.77x as on Mar.31, 2017 due to accretion of profits to reserves and lower working capital borrowings. The gearing ratios remain moderate inspite 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.

In 9MFY19, TPPL achieved net profit of Rs.27.82 crore on net sales of Rs.126.55 crore.

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.

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

Key Rating Weaknesses

Moderate, though increasing scale of operation

TPPL is a relatively small player in the plastic laboratory ware products industry with gross sales of Rs.148.71 crore in FY18. 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 increased to 246 days in FY18 as compared with 239 days in FY17 on account of higher collection and inventory period. Inventory period is high mainly due to stock maintained for large number of products sold by the company and raw material inventory. However, a large part of the working capital requirement is met through internal generations and utilisation of working capital limits was low at ~24% in the 12 months ended December 2018.

Susceptibility to fluctuation in raw material prices

Raw material consumption (including trading material), constituted about 57% of total cost of sales in FY18. Plastic granule is the primary raw material required for manufacturing plastic laboratory products. Majority of these raw materials (around 78% in value terms in FY18) 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.50 crore which is being financed with term debt of Rs.35 crore and internal generations of Rs.15 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.

Liquidity

The liquidity position of the company is comfortable with healthy cash generation to fund the ongoing expansion and meet its debt obligation and average fund based working capital limit utilisation for the last 12 month ended December 31, 2018 stood at~24%.

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 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)	FY17 (A)	FY18 (A)
Total operating income	137.75	151.70
PBILDT	50.44	53.07
PAT	18.65	18.92
Overall gearing (times)	0.77	0.54
Interest coverage (times)	6.24	6.57

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.*

Analyst Contact
Name: Mamta Muklania
Tel # +91 (0)33-40181651
Mob: 98304 07120
Email: mamta.khemka@careratings.com

***** For detailed Rationale Report and subscription information, please contact us at www.careratings.com***

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	June 2025	59.34	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	42.00	CARE A-; Stable	-	1)CARE A-; Stable (19-Dec-17)	1)CARE BBB+; Positive (01-Mar-17)	1)CARE BBB+ (16-Feb-16)
2.	Term Loan-Long Term	LT	59.34	CARE A-; Stable	-	1)CARE A-; Stable (19-Dec-17)	1)CARE BBB+; Positive (01-Mar-17)	1)CARE BBB+ (16-Feb-16)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691