Tarsons Products Private Limited

December 19, 2017

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term bank facilities	78.43 (reduced from 67.51)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Revised from CARE BBB+;Positive (Triple B Plus; Outlook: Positive)**
Total Bank Facilities	**78.43 (Rs. Seventy Eight crore and Forty Three lakh only)**		

** Details of instrument/facilities in Annexure-1*

Detailed Rationale and Key rating drivers

The revision in the rating assigned to the bank facilities of Tarsons Products Private Limited (TPPL) takes into account continuous improvement in the financial performance in FY17 (refers to the period April 1 to March 31) and H1FY18 with healthy profitability margins and comfortable debt coverage indicators. The rating continues 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 rating, however, remains 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 and dependence of company's prospects on government spending on research work.

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.

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 financial performance in FY17 and H1FY18 with healthy profitability margins and comfortable debt coverage indicators: Net sales increased by about 10% in FY17 as compared with FY16. The increase was primarily attributable to increase in sales of both manufacturing and trading sales. PBILDT margin continued to remain healthy at 36.62% in FY17. PAT margin improved on account of lower capital charge and creation of deferred tax asset. Interest coverage improved and continued to remain comfortable. Debt equity and overall gearing ratio improved to 0.43x and 0.77x as on Mar.31, 2017 from 0.54x and 0.98x as on Mar.31, 2016 on account of marginal reduction in debt level with increase in networth due to accretion of profits to reserves.

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

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

face intense competition from domestic and 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.136.23 crore in FY17. 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 239 days in FY17 as compared with 217 days in FY16 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 moderate at about 57% in the 12 months ended November 2017.

Susceptibility to fluctuation in raw material prices: Raw material consumption (including trading material), constituted about 62% of total cost of sales in FY17. Plastic granule is the primary raw material required for manufacturing plastic laboratory products. Majority of these raw materials (around 80% in value terms in FY17) 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 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)	FY16 (A)	FY17 (A)
Total operating income	124.80	137.75
PBILDT	47.01	50.44
PAT	9.31	18.65
Overall gearing (times)	0.98	0.77
Interest coverage (times)	5.13	6.24

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 A-; Stable
Term Loan-Long Term	-	-	Dec. 2022	36.43	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	42.00	CARE A-; Stable	-	1)CARE BBB+; Positive (01-Mar-17)	1)CARE BBB+ (16-Feb-16)	1)CARE BBB (09-Dec-14)
2.	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST	-	-	-	-	-	1)Withdrawn (09-Dec-14)
3.	Term Loan-Long Term	LT	36.43	CARE A-; Stable	-	1)CARE BBB+; Positive (01-Mar-17)	1)CARE BBB+ (16-Feb-16)	1)CARE BBB (09-Dec-14)
4.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	-	-	1)Withdrawn (09-Dec-14)

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