

12th July 2023

Tarsons Products Ltd. – BUY

CMP : Rs. 635
Target Price : Rs. 777
Upside : 22%+
Stop Loss : Rs. 555.0 (Closing basis)

Investment Thesis

- The labware industry is undergoing a massive shift from glass labware to plastic labware domestically and globally. This has presented a significant growth opportunity for Tarsons Products Ltd. (TARSONS), which has been a strong domestic player in the plastic labware category and holds a market share of ~12-14%. TARSONS aims to reach 22 – 25% market share.
- TARSONS has a dual competitive advantage of being a low-cost substitute (~50% cheaper) to other competitive brands while delivering products which are of top-tier quality. Therefore, these moats will help TARSONS grow substantially over the long term.
- According to the management, the export prospects are extremely lucrative. The potential size of the export market is ~Rs. 60,000 crs which is a high demand segment coming in from Europe and North America. Management aims to expand its presence in the Middle East, specifically in UAE, Saudi Arabia, Jordan, and Turkey. Further, TARSONS is looking to partner with OEMs in developed countries and reach ~120 countries over the next 5 – 10 years.
- TARSONS' FY23 revenue declined by ~6% owing to the receding demand from COVID-related products, which elevated revenues in FY22. Further, TARSONS' products cater to the healthcare industry mainly CRO, Diagnostics, Academia & Research which was experiencing a slowdown after the pandemic. It is expected that CRO and Academia & Research will continue to show robust growth while the diagnostic space may undergo a phase consolidation on account of fierce competition. Signs of recovery are already visible as Q4FY23 revenues jumped 34% QoQ. Similarly, the EBITDA margin improved by 436 bps QoQ to 47.85%.
- TARSONS has incurred significant CapEx to expand its manufacturing capabilities. A new manufacturing facility at Panchla is expected to commence operations by the end of Q2FY24. Currently, this facility runs at ~50% utilization, the expanded facility will have the potential to generate a turnover of Rs. 500 crs at full capacity.

Financials

- The top line for FY23 declined by ~6% owing to the receding demand from COVID-related products, which elevated revenues in FY22.

Particulars	FY20	FY21	FY22	FY23	FY24E
Revenue (Rs. in Crs)	175.90	228.91	300.79	283.25	371.06
EBITDA (Rs. in Crs)	73.41	108.82	161.17	141.70	178.11
Adj. PAT (Rs in Crs)	40.53	68.87	100.66	80.71	105.96
Adj. EPS (Rs.)	7.65	13.54	18.92	15.17	19.91
PE Multiple (x)	-	-	37.22	35.12	39.00
RoE (%)	24.35	31.17	27.42	15.24	15.69

Stock Data

Market Cap (Rs. Crs)	3,387
Market Cap (\$ Mn)	411.3
Shares O/S (in Mn)	53.2
Avg. Volume (3 month)	1,05,815
52-Week Range (Rs.)	914 / 501

Shareholding Pattern

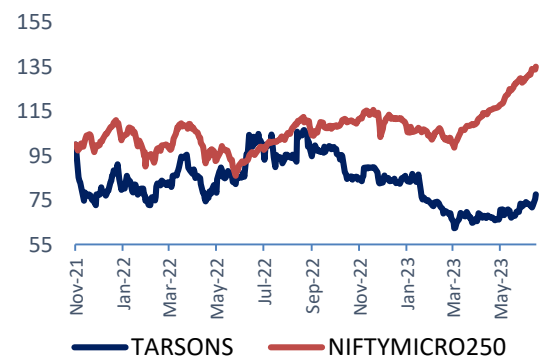
Promoters	47.31 %
FII's	8.64 %
Institutions	7.38 %
Others (incl. body corporate)	36.67 %

Key Ratios

Div Yield (%)	NA
TTM PE (x)	42.12
ROE (%)	15.24
TTM EPS (Rs.)	15.17

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	14.0	(6.0)	(21.8)
NIFTY MICROCAP	6.6	(27.3)	(61.9)



- Consequently, the EBITDA margins was impacted by 495 bps declining to 45.81% in FY23 from 50.77% in FY22. EBITDA margin showed signs of recovery in the Q4FY23 which margin improved by 436 bps QoQ to 47.85% the highest in FY23.
- TARSONS generated healthy cash flow from operations in FY23 of Rs. 75.6 crs, which is an EBITDA conversion ratio of ~59%, which is above its peers and the industry average.

Key Business Highlights

- Tarsons Products Ltd (TARSONs) is a leader in the production and supply of laboratory plasticware in India with more than three decades of experience. TARSONS is engaged in the design, development, manufacturing and marketing of consumables, reusables, and others (including benchtop equipment & instruments).
- The margin profile of TARSONS has enabled it to earned healthy cash flows from operations which the management has allocated opportunistically to build capacities. As a result, the gross block has trebled in the past 5 years.
- TARSONS products are used by key end-user markets like Academic / Research Institutes, Pharmaceutical companies / CROs, Diagnostic players, etc. The company has a diversified product portfolio with over 1,700 SKUs across 300 products.
- TARSONS is focused on making good on this export opportunity and has steadily increased its export revenue contribution to 33% in FY23 from 27% in FY20.

Valuation

TARSONS has corrected from a 52-week of Rs. 914 to Rs. 501 the 52-week low, as it underperformed from Q1FY23 to Q3FY23. Post Q4FY23 results, a rally was seen as the fourth quarter result saw a recovery in revenue as well as profitability and the stock is currently trading at Rs. 636 which translates to a PE / EBITDA multiple of 42.1x / 24.3x against the average of industry peers being 33.9x / 20x which is at premium. TARSONS would be an ideal pick.

Therefore, considering the growth prospects, recovery in demand domestically & globally and opportunity-driven CapEx, we are assign a **BUY** rating for **TARSONS** with a **target price** of Rs. **777**, translating to an **upside** of **~22+%**.

Risk & Concern

- A slowdown or disruption in the healthcare sector will directly impact the growth prospects of TARSONS as it caters to the specific need of the players from this sector.
- Tarsons uses a variety of raw materials including PP, PS, HDPE, LDPE, and other specialized resins in the production of its product segments. These commodities are subject to fluctuation in price by global trends and the availability of these raw materials could impact profitability.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Crs)

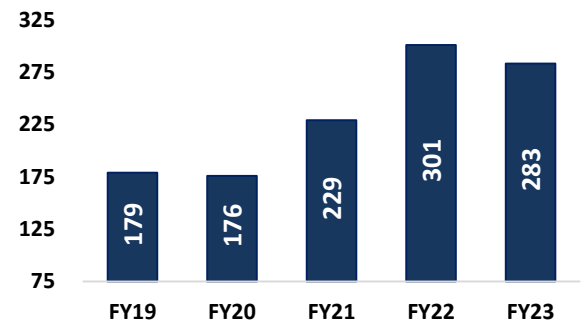


Figure 2: EBITDA & EBITDA Margin Trend

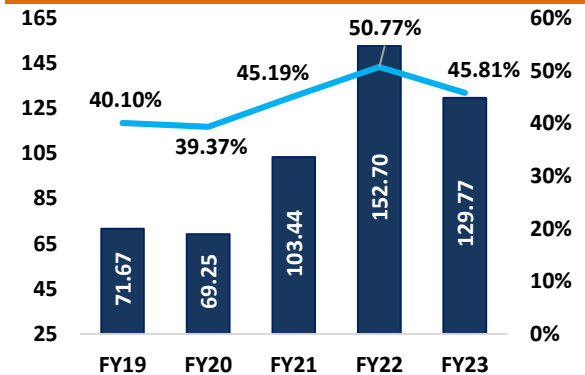


Figure 3: Region-wise Revenue (FY23)

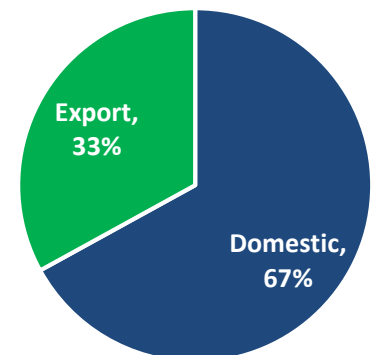
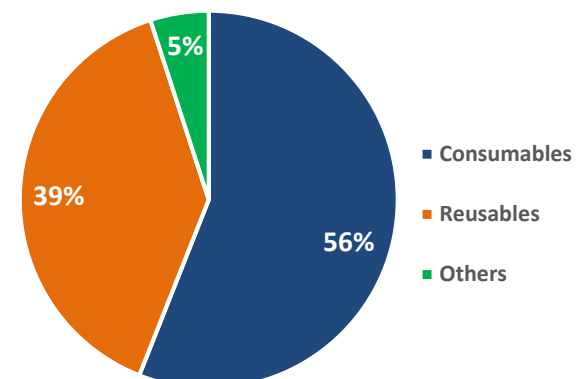


Figure 4: Product-wise Revenue (FY23)



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