



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Tarson Products Ltd Q2 FY23 consolidated revenues came in at ₹71 Cr, down 6.30% YoY and up 2.89% QoQ.
- Op Profit for Q2FY23 stood at ₹33 Cr, up 5.4% QoQ and down 13.15% YoY.
- Op margins for Q2FY23 came at 46% vs 45% in Q1 fy23.
- PAT for Q2FY23 stood at ₹21 Cr, down 16% YoY and up 5% QoQ.

2. MANAGEMENT COMMENTARY:

- Co. posted negative set of numbers for the quarter ended 30th September 2022 on account of higher covid base.
- During the Quarter revenue fell 2.89% QNQ, of which domestic revenue fell 8.3% QNQ basis.
- Export business grew 8% YoY (+35% QoQ) driven by volume growth.
- During the Quarter, company took a price hike but impact of the same will be reflected in revenue in next few quarters.
- Co. has planned Rs 500cr capex. Expansion Plan of new facilities at Panchla & Amta is on track and increased revenue from such facilities will be reflected in next few quarters.
- During the quarter, Margins have declined due to the supply chain disruptions, higher promotional and marketing expenses and geopolitical tensions between Russia & Ukraine.
- Company has received good response for PCR in terms of quality and is expected to increase demand in both domestic & Export market.
- Co. is expected to maintained margins in the range of 40% to 45% over FY 23-24 on account of higher revenue contribution from new products.

3. CONCALL SUMMARY

- The operating income for the quarter was INR 71 crore, a decrease of 6.30% year-on-year basis. Operating EBITDA was INR 33cr, decrease of 13.15% on year on year and EBITDA margin stood at 46%. Net profit after tax reported was INR 21crore, a decrease of 16% year on year while the PAT margin percentage was 29.5%.
- Company has received good response for PCR in terms of quality and is expected to increase demand in both domestic & Export market.
- Margins have declined due to the supply chain disruptions, higher promotional and marketing expenses and geopolitical tensions.
- Company has maintained EBITDA margins in line of 40-45%.

4. OTHER DEVELOPMENTS:

- Co is expected to gain huge market share in export for which co has incurred significant expenses on marketing and promotion and revenue from the same will be reflected in next few quarters.

5. VALUATION AND OUTLOOK:

Company has reported weak quarter however if we exclude Covid related revenue then company has reported strong revenue growth and co is expected to maintain 18% CAGR for Fy 23-25. Co. recently took price hike and the revenue contribution from the same will be reflected in next few quarters. Margins are expected to improve as raw material prices has stabilised and is expected to remain in range for next few quarters. Company is maintaining highest margin in industry.

We initiate a "BUY" rating on the stock and value the stock at 42x FY24E earnings to arrive at the target of ₹1157.

RECOMMENDATION - BUY

CMP – 733
TARGET – 1157 (57.8%)

Industry	Plastic Products
NSE CODE	TARSONS
BSE CODE	543399
Market Cap (₹ Cr)	3888.85
Shares Outstanding (in Cr)	5.32
52 wk High/Low (₹)	914.45 / 538.7
P/E	38.63
P/BV	7.94
Face Value (₹)	2.00
Book Value (₹)	92.06
EPS (FY21) (₹)	18.92
Dividend Yield (%)	0.00
Total Debt / Equity	0.04
Interest Coverage	33.02

SHAREHOLDING PATTERN

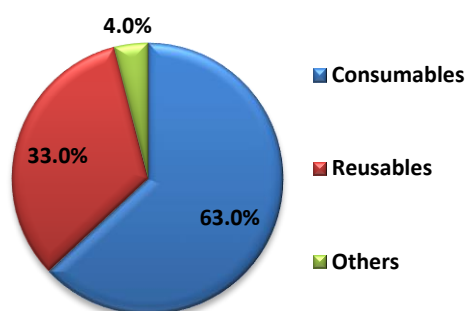
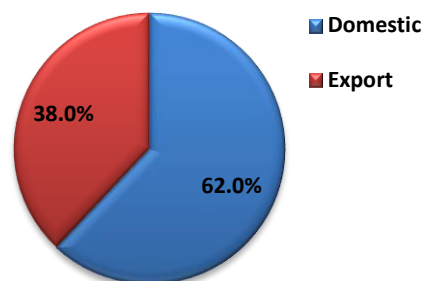
	Sep 22	Jun 22	Mar22
Promoters	47.31	47.31	47.31
MF/ DII	7.29	7.39	7.66
FII/FPI	9.89	9.33	9.12
Retail & Others	34.67	35.31	35.82
Promoter	0.00	0.00	0.00
Pledging			

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022A	2023E
Crore			
Sales	228.91	300.79	355
Sales Gr. (%)	30.14	31.40	17.5
EBITDA	103.26	152.70	180.50
EBITDA %	47.54	53.58	50.8
PAT	68.87	100.66	121.88
EPS (₹)	13.54	18.92	22.91
EPS Gr. (%)	0.00	39.78	21.08
BV/Sh. (₹)	-	92.06	114.91
Ratios			
RoE (%)	28.19	27.42	27.4
RoCE (%)	34.25	35.28	35.3
Valuation			
P/E (x)	-	38.79	34.81
P/BV (x)	7.6	7.85	6.43
EV/EBITDA	25.6	24.8	25.9

Historical & Industrial Val Ratios

Historical P/E	38.63
Industry P/E	20.42
Historical P/B	7.94
Industry P/B	3.78


REVENUE SPLIT (Q2 FY23)
Segmental Mix

Geographical Mix

QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY22				FY23			FY22	FY23E
	Q1	Q2	Q3	Q4	Q1	Q2	Q3E*		
Net sales	68	69	70	85	69	71	107	301	355
YoY change (%)				25.7	-0.75	-6.3	52.0	31.40%	17.5%
Total Expenditures	33	32	38	41	37	39	58.7	148	174
EBITDA	35	37	33	44	31	33	48	152.70	180.5
Margins (%)	53	51	47	52	45	46	45	53.58%	50.8%
Depreciation	3	5	5	7	6	7	7	21.96	22.0
Interest	1	1	1	0	0	1	1	4.22	4.0
Other income	1	2	2	3	3	4	4	8.47	8.0
PBT	32	33	29	39	27	29	44	134.99	162.5
Tax	8	9	7	10	7	8	11	34.33	40.6
Adjusted PAT	24	25	21	29	20	21	33	100.66	121.88
EPS in Rs	19.87	47.83	16.28	18.70	19.37	4.03	6.20	18.92	22.91
Key Performance Indicators									
Raw Mat cost as % of revenue	13	11	16	17	20	18	18	21	21
Employee cost as % of revenue	6	6	8	8	9	8	8	11	11
Op profit Margin	51	52	53	47	52	45	45	51	51
Net profit margin	35	35	36	30	35	30	30	33	34

Source: Company, Hem Securities Research.

***Insights into the assumptions:**

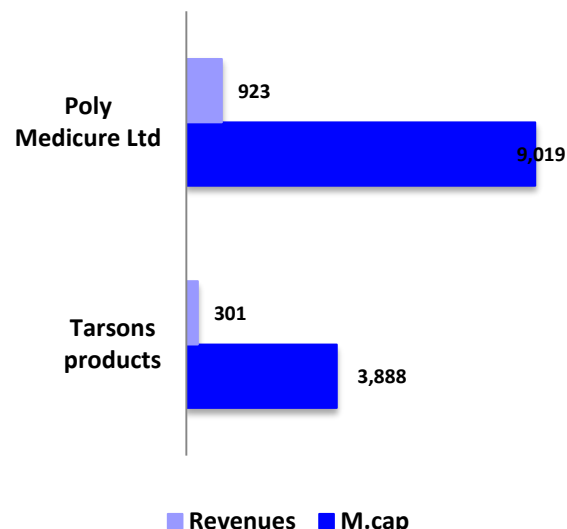
- We expect significant increase in revenue in upcoming quarters as co has increase prices of few products..
- We also believe that there could be margin pressure due to rise in commodity prices.



INDUSTRY OVERVIEW

- The global plastic lab ware market has opportunity size of USD8.2–8.4bn (INR61, 500–63,000cr) which provides a huge export potential for Indian players. In 2009, Tarsons started supplying plastic lab ware to Avantor, this enabled Tarsons to expand business to new geographies. Tarsons caters to the branded as well as ODM export market. The company distributes branded products to more than 40 countries through a network of 45 active distributors.
- Domestic plastic lab ware market expected to grow at a healthy rate of ~16% and players with quality products, wide distribution reliability and competitive pricing to outperform the sector.
- The domestic market size of addressable plastic lab ware industry is ~INR1200cr; Tarsons accounts for INR720–740cr of the market. Tarsons plans to expand its product portfolio by manufacturing PCR and cell culture products where the company has minimal presence; the space is dominated by MNC players such as Thermo Fisher and Corning. Tarsons aims to double its capacity through the upcoming plant at Panchla which would enable it to cater to the entire INR1200cr plastic lab ware market

Key Players in Plasticware Segment



PEER PERFORMANCE

(₹ Cr)

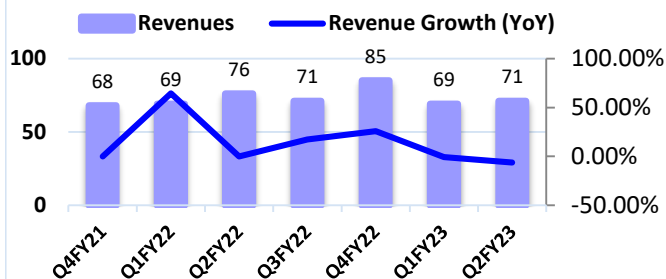
Particulars	Tarsons Products	Poly Medicure Ltd
Market Cap	3,888.8	9,019.2
Net Sales	300.8	923.1
EBITDA	152.7	215.0
PAT	100.7	146.5
EPS(₹)	18.9	15.3
EBITDA MARGIN %	53.6	27.3
PAT MARGIN %	33.5	15.8
ROCE %	35.3	17.4
ROE %	27.4	14.3
P/E TTM	38.6	63.9
P/B TTM	7.9	8.0
EV/EBITDA		
Dividend Yield %	-	0.3
MCap/ Sales TTM	12.9	8.9

Source: Company, Hem Securities Research.

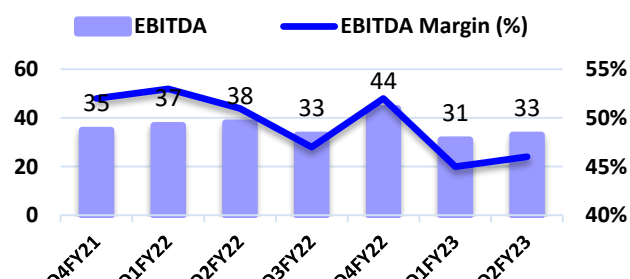


STORY IN CHARTS

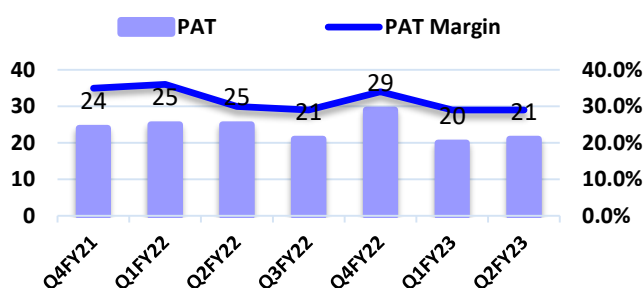
Revenue



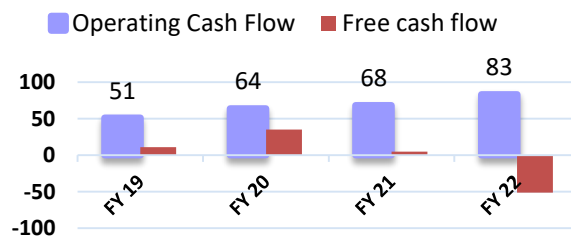
EBITDA & EBITDA Margin



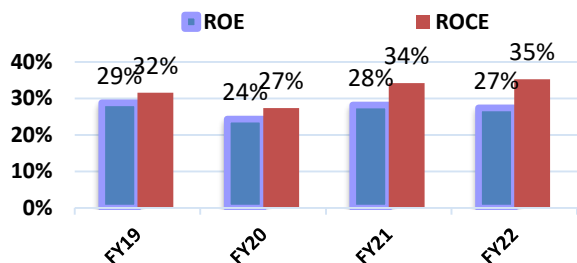
PAT & PAT Margin



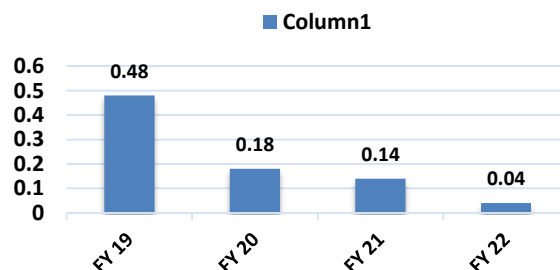
Trend in Cash Flow



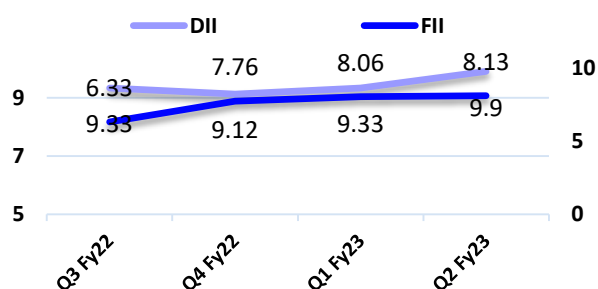
ROE & ROCE



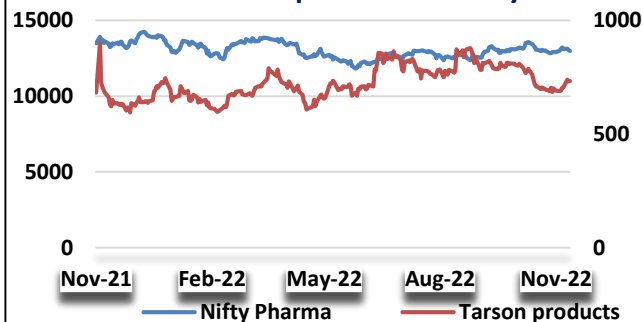
Debt/ Equity



FII & DII Trend



Tarsons products Vs Nifty Pharma





INVESTMENT RATIONALE:

- Tarson has recorded revenue growth of more than 30% over last few years, outperforming the industry estimates in last few years. Co has generated highest ever revenue of 301cr for the FY ended 2022.
- Tarson is expected to generate revenue @18% CAGR over the period of fy 2023-25.
- Op margin for the Fy 22 stood at 51% and continuously improving from 39% in FY 20.
- Tarson is foraying into PCR and cell culture products, which is expected to generate margins in line with those of the company's existing products.
- Tarson is witnessing strong demand from pharmaceutical companies and Indian Plastic ware market is expected to rise @16.7% CAGR over next 3 years.
- Co. has planned total Capex of Rs 500 cr, out of which Rs 240 cr has already incurred, Revenue from the same will be reflected in the financials of next few year.
- Co is currently having ROE of 27.4%, ROCE of 35.3%.
- Co is Net debt free.
- Co. 3y Sales CAGR stood at 19%.
- Co. 3y profit CAGR stood at 37%.
- Both FII and DII has increase shareholding in Qtr ended Sep 2022. FII holding stood at 9.9% and DII holding stood at 8.13%.

RISK / NEGATIVE FACTORS:

- The company uses a variety of raw materials including polystyrene, PP, HDPE, LDPE and other specialized medical-grade plastic resins to manufacture products. Prices of these commodities are influenced by fluctuations in the price of crude oil and by other macro-economic factors affecting availability of raw materials.
- The company imports over 75% of its raw materials, with the top 10 suppliers accounting for 77% of its total purchases. Co does not have any long term contracts with supplier for pricing.
- The company relies heavily on a few distributors; its top 10 distributors accounted for 56% of domestic revenue in FY21 and large distributors accounted for majority of regional sales. Of the 36 distributors in South India, five account for ~67% of South India sales, and of the 11 distributors in West India, three account for 40% of West India sales. Any disruption in the distribution network, including loss of any of the key distributors to competitors, could have a negative impact on the company's ability to sell products

COMPANY RECAP

- Tarsons Products Ltd incorporated in 1983, is one of the leading plastic lab ware companies in India with 25% share in its target market.
- Company is engaged in the designing, development, manufacturing, and marketing of 'consumables', 'reusable' and 'others' including bench top equipment.
- Co is currently having network of 141 distributors and 50 members in sales team. Out Of the total distributors, 75–80% have been associated with Tarsons for more than two decades.
- Co. caters to various laboratories across research organizations, academia institutes, pharmaceutical companies, Contract Research Organizations, Diagnostic companies, and hospitals.
- The company has a well-diversified product portfolio with 1,700+ SKUs across 300 products.
- Tarsons runs the largest in-house plastic lab ware manufacturing facilities in India which enables it to have full control on product quality and deliver products in time, besides providing cost advantage.
- Geographically, Tarsons manufacturing facilities are concentrated – all are located in West Bengal. Two of the manufacturing units, located in Dhulagarh and Jangalpur, contributed ~87% of total manufacturing revenue in FY22.
- The company uses a variety of raw materials including polystyrene, PP, HDPE, LDPE and other specialized medical-grade plastic resins to manufacture products.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement						(₹ Cr)
Y/E March	2019	2020	2021	2022	2023E	2024E
Revenue from operations	178.75	175.90	228.91	300.79	355.18	419.10
Growth YoY (%)	0.00	-1.59	0.00	31.40	17.5	17.6
Total Expenditure	107.14	107.51	125.65	148.10	174.68	206.12
(%) of sales	59.94	61.12	54.89	49.23	49.0	49.0
EBITDA	71.60	68.40	103.26	152.70	180.50	212.9
EBITDA Growth (%)	0.00	-5.45	0.00	48.11	18.0	18.0
EBITDA Margin (%)	43.43	41.73	47.54	53.58	50.7	50.7
Depreciation	14.56	14.17	13.66	21.96	22.0	22.0
EBIT	63.07	59.24	95.16	139.21	166.5	198.99
EBIT Growth (%)	0.00	-6.08	0.00	46.29	19.7	19.5
Net Interest Expenses	7.25	6.10	2.72	4.22	4.00	4.00
Other Income	6.03	5.01	5.56	8.47	8.00	8.00
Earnings before Taxes	55.83	53.13	92.43	134.99	162.5	194.99
EBT Margin (%)	31.23	30.21	40.38	44.88	46.0	46.5
Tax-Total	16.87	12.60	23.56	34.33	40.62	48.74
Rate of tax (%)	30.21	23.72	25.49	25.43	25.0	25.0
Net Profit	38.96	40.53	68.87	100.66	121.88	146.24
PAT Growth (%)	0.00	4.04	0.00	46.17	20.4	20.0
PAT Margin (%)	21.79	23.04	30.09	33.47	33.6	34.2
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted PAT	38.96	40.53	68.87	100.66	121.88	146.24
EPS	0.00	0.00	13.54	18.92	22.91	27.49
EPS Growth (%)	0.00	-0.12	0.00	39.78	21.00	19.00

Balance Sheet

Y/E March	2019	2020	2021	2022
Share Capital	0	0	0	11
Reserves	135	197	244	479
Net Worth	135	198	244	490
Borrowings	0	0	0	0
Other Liabilities	77	51	147	184
Total Liabilities & Equity	212	249	392	673
Fixed Assets	89	92	120	189
CWIP	7	19	22	32
Investments	0	0	0	0
Other Assets	116	137	250	452
Total Assets	212	249	392	673

Source: Company, Hem Securities Research.



Ratios				
Y/E March (Basic (INR))	2019	2020	2021	2022
Profitability and return ratios				
Net profit margin (%)	21.79	23.04	30.09	33.47
EBITDA margin (%)	43.43	41.73	47.54	53.58
EBIT margin (%)	35.29	33.68	41.57	46.28
ROE (%)	28.80	24.35	28.19	27.42
ROCE (%)	31.57	27.35	34.25	35.28
Working Capital & liquidity ratios				
Payables (Days)				
Inventory (Days)	14.45	29.71	35.46	54.91
Receivables (Days)	94.84	98.74	74.46	78.31
Current Ratio (x)	91.05	85.89	75.00	68.08
Valuations Ratios	1.80	2.96	2.70	7.00
EV/sales (x)				
EV/EBITDA (x)	0.36	0.06	0.13	12.24
P/E (x)	0.82	0.13	0.28	22.85
P/BV (x)	0.00	0.00	0.00	37.22
Dividend Yield (%)	0.00	0.00	0.00	7.65
Leverage Ratio	0.00	0.00	0.00	0.00
Debt/Equity (x)	0.48	0.18	0.14	0.04

Cash Flow Statement				
Y/E March	2019	2020	2021	2022
CF from Operating activities (A)	51	64	68	83
CF from Investing Activities (B)	-34	-25	-64	-137.9
CF from Financing Activities (C)	-18	-14	-27	130
Net Cash Flow	-0.467	25	-22.979	75
Add: Opening Bal.	1	1	25	2
Closing Balance	1	25	2	77

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	$\geq 15\%$
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	$< -5\%$

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
08-12-2022	Buy	1157

DISCLAIMER

HEM Securities Limited ("Research Entity or HSL") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.



HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

ANALYST CERTIFICATION/ DISCLOSURE OF INTEREST

Name of the Research Analyst: Madhur Mandhana

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

SN	Particulars	Yes/No
1.	Research Analyst or his/her relative's or HSL's financial interest in the subject company(ies)	No
2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

Since HSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months. Associates of HSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.