

Q3-FY23 Result Update

- ❑ Tarsons Products reported revenue from operations of Rs. 613.2 Million (Mn) in Q3FY23 vs Rs.706.6 Mn in Q3FY22 (high base due to covid revenues during the quarter). On a YoY/QoQ basis, revenues were down by 13.2%/13.9% respectively. It reported tepid results due to temporary slowdown in the life science industry and loss in revenues related to covid in previous year's same quarter.
- ❑ Tarsons export business revenues were lower by 17% & grew by 1% on Y-o-Y basis for Q3FY23 & 9MFY23 respectively led by slowdown in the life science industry. The contribution of original device manufacturer (ODM) revenue to Tarsons export business stood at 59% in Q3FY22 whereas branded products contributed 41% of exports. Tarsons incurred higher marketing and travel expenses to gain exposure to new geographies and fuel future growth which continued to weigh on margins.
- ❑ Tarsons EBITDA margin contracted by ~340bps YoY to 43.5% which was lower than our estimate of 45.3%, mainly due to lower absorption of fixed cost on account of decline in revenues, Higher marketing and branding expenses in export markets to fuel growth. Its gross margins remained resilient during the quarter at 77.5% in Q3FY23 as against 77.9% in Q3FY22.
- ❑ Overall, Tarsons Q3 was a clear miss in terms of revenue growth & margins as higher base last year owing to COVID-related revenues weighed on growth, coupled by softening demand in its exports market especially in the US & the UK moreover its conventional business (revenue excluding COVID-related business) continues to remain resilient amid turbulent environment, which is expected to continue in the upcoming quarters. Tarsons capex plans to remain largely in-line with Panchla facility nearing completion and manufacturing is likely to start in phases from Q2FY24.
- ❑ Tarsons reported modest performance for the last two quarters led by slowdown in demand from life-science industry, slow recovery from after effects of covid and slowdown particularly in its exports led market however it has maintained its Rs.5,000 Mn revenue target with 50% margin by FY25 fuelled by domestic as well as export businesses and in-line capacity expansions and remain optimistic on the industry growth prospects, with the addition of new product categories & capacity expansion. Considering the company's robust distribution capabilities and 15% growth in domestic lab-ware market We maintain our **Buy** rating on the stock with a revised target price of **₹860 per share**.

Financials:

(In ₹ mn)	Q3-FY23	Q2-FY23	Chg	9M-FY23	9M-FY22	Chg
Net Sales	613	686	-10.7%	2,012	2,159	-6.8%
Operating Expense	346	375	-7.6%	1,107	1,075	3.0%
EBITDA	267	311	-14.3%	905	1,084	-16.5%
Other Income	34	27		98	59	
Depreciation	72	61		202	147	
EBIT	228	277	-17.6%	800	995	-19.6%
Interest	12	4		24	38	
PBT	216	273	-20.8%	776	958	-18.9%
Tax	55	70		197	246	
Exceptional Items	-	-		-	-	
PAT	161	203	-20.6%	579	712	-18.7%
Minority /Other Adj.	3	1		4	(1)	
Consolidated PAT	164	204	-19.7%	583	711	-18.0%

Margins	Q3-FY23	Q2-FY23	Chg BPS	9M-FY23	9M-FY22	Chg BPS
Operating Margin %	43.5%	45.4%	-187	45.0%	50.2%	-522
Net Margin %	26.7%	29.7%	-300	28.8%	33.0%	-421

Consolidated Financials:

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Net Sales	2,289	3,008	2,858	3,543
Operating Expense	1,255	1,481	1,543	1,892
EBITDA	1,034	1,527	1,314	1,651
Other Income	54	85	119	121
Depreciation	137	220	286	354
EBIT	952	1,392	1,147	1,418
Interest	27	42	20	24
PBT	924	1,350	1,128	1,394
Tax	236	343	287	354
PAT	689	1,007	841	1,039

Margins	FY-21	FY-22	FY-23E	FY-24E
Sales Growth %	30.1%	31.4%	7.0%	20.0%
Operating Margin %	45.2%	50.8%	46.0%	46.6%
Net Margin %	30.1%	33.5%	29.1%	29.1%

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Liabilities				
Equity Share Capital	2	106	106	106
Reserves & Surplus	2,441	4,792	5,633	6,672
Total Shareholder's Funds	2,443	4,898	5,739	6,778
Minority Interest	-	-	-	-
Long-Term Liabilities	33	93	93	93
Other Long-term Liabilities	33	58	58	58
Deferred Tax Liability	33	44	44	44
Short-term Liabilities	418	349	312	387
Total	2,960	5,442	6,246	7,361
Assets				
Net Fixed Assets	1,425	2,997	3,609	4,113
Long-Term L&A	404	-	-	-
Non Current Investments	-	-	-	-
Other Non-Current Assets	2	-	-	-
Current Asset	1,128	2,445	2,637	3,249
Total	2,960	5,442	6,246	7,361

Key Ratios	FY-21	FY-22	FY-23E	FY-24E
EPS (₹)	12.9	18.9	15.8	19.5
P/E (x)	54.1	37.0	44.3	35.8
P/B (x)	15.2	7.6	6.5	5.5
ROE	28.2%	20.6%	14.7%	15.3%

Source: Company, Anand Rathi Research

Key Risks:

- ❑ Dependency on large distributors- Top 10 distributors accounted for 56% of FY21 revenues. 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.
- ❑ Tarsons imports over 75% of its raw materials from western countries like USA, Singapore, Europe, Malaysia and Taiwan. Any slowdown in these markets may lead to unavailability of key raw materials which could further impact its financials.
- ❑ With 87% of Tarsons revenue coming from manufacturing facilities located in West Bengal, this geographic concentration could adversely affect the company's business operations at the time of slowdown.
- ❑ Tarsons 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.

Rating and Target Price history:

TARSON’s rating history & price chart



TARSON’s rating details

Date	Rating	Target Price (₹)	Share Price (₹)
29-Jun-22*	Buy	867	711
14-Oct-22#	Buy	974	802
16-Nov-22	Buy	910	702
15-Feb-23	Buy	860	615

*Profit booked, #Re-initiated

Source: Bloomberg, Anand Rathi Research
NOTE: Prices are as on 15 February 2023 close.

Source: Bloomberg, Anand Rathi Research

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
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