

16 August 2024

India | Equity Research | Q1FY25 results review

Tarsons Products

Healthcare

Multiple drags to margins; recovery may dawdle

Tarson's Q1FY25 standalone biz revenue and margins were impacted due to a slowdown in its domestic business (down ~4% YoY). Higher share of exports and sales of Nerbe's (INR 201mn) weighed on its consol. EBITDA margins, down 1280bps YoY to 25.7%. Commercialisation of Panchla plant is now expected in H2FY25, as it suffered from damage to new machinery (INR 30mn impact) in Q1. It has incurred capex of INR 3bn towards the Panchla plant and can generate revenues of INR 4bn at peak capacity in 3–5 years post commercialisation. We cut our FY25E/FY26E EPS by 12%/10.8%, factoring in lower sales and margins of Nerbe (8–12%). We lower our rating to **REDUCE** (Add earlier). TP revised to INR 408 at 17x FY26E EV/EBITDA.

Revenue in-line; Nerbe acquisition weighs on margins

Tarsons' Q1FY25 revenue grew 35.5% YoY (down 19.8% QoQ) to INR 848mn (I-Sec: INR 845mn). Gross margin contracted 780bps YoY (-120bps QoQ) to 67.4%, impacted by product mix. EBITDA dipped 9.7% YoY (-35.9% QoQ) to INR 218mn (I-Sec: INR 267mn); margin receded 1,290bps (-650bps QoQ) to 25.7%. Adj. PAT fell 49.3% YoY (-52.8% QoQ) to INR 59mn (I-Sec: INR 102mn).

Domestic growth yet to pick up; exports traction healthy

Tarsons' domestic business accounted for 66% of its Q1FY25 standalone revenue, declining 4.4% YoY/27.1% QoQ to INR 430mn. Share of exports stood at 34% of sales, as against 27% in Q1FY24. Standalone export revenue grew 29.4% YoY (-21.4% QoQ) to INR 220mn. Leveraging Nerbe's distribution strength and manufacturing capabilities in India, Tarsons aims to improve its export footprint to ~120 countries (45 currently) in the next 5–10 years.

Fresh capacities to revive growth

Tarsons is incurring capex of INR 6bn, of which ~INR 3bn has been incurred for the Panchla plant and the rest will be used for its plants at Amta, Jangalpur and Dhulagarh. The Panchla plant will be commercialised in H2FY25 and may reach optimum capacity utilisation in the next 4–5 years; it can potentially generate revenue of ~INR 4bn at peak utilisation.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	2,832	2,964	3,933	4,439
EBITDA	1,298	998	1,231	1,416
EBITDA Margin (%)	45.8	33.7	31.3	31.9
Net Profit	807	426	583	661
EPS (INR)	15.2	8.0	11.0	12.4
EPS % Chg YoY	(19.8)	(47.2)	36.7	13.4
P/E (x)	29.7	56.1	41.1	36.2
EV/EBITDA (x)	18.8	26.3	21.4	18.4
RoCE (%)	13.8	6.2	7.1	7.6
RoE (%)	15.2	7.2	9.1	9.4

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Market Data

Market Cap (INR)	24bn
Market Cap (USD)	285mn
Bloomberg Code	TARSONS IN
Reuters Code	TARO BO
52-week Range (INR)	610 /389
Free Float (%)	29.0
ADTV-3M (mn) (USD)	0.6

Price Performance (%)	3m	6m	12m
Absolute	4.5	(5.9)	(19.6)
Relative to Sensex	(3.7)	(16.1)	(40.5)

Earnings Revisions (%)	FY25E	FY26E
Revenue	(8.0)	(7.0)
EBITDA	(12.0)	(10.8)
EPS	(12.0)	(10.8)

Previous Reports

01-06-2024: [Q4FY24 results review](#)

17-02-2024: [Q3FY24 results review](#)

Valuation

Tarsons' domestic business run-rate has been range bound for the last couple of quarters while traction in its export business has been healthy. In Q1FY25, higher contribution of exports sales and salary hikes had weighed on its standalone margins while the wafer-thin margins of the acquired entity, Nerbe, further took a toll on the margins. Management envisages peak margins in the business to be between ~8–12%, as it plans to shift manufacturing of over 2,000 of Nerbe's SKUs to Tarsons' India-based plants. Consolidation of Nerbe and commercialisation of the two new plants are expected to keep margins in check.

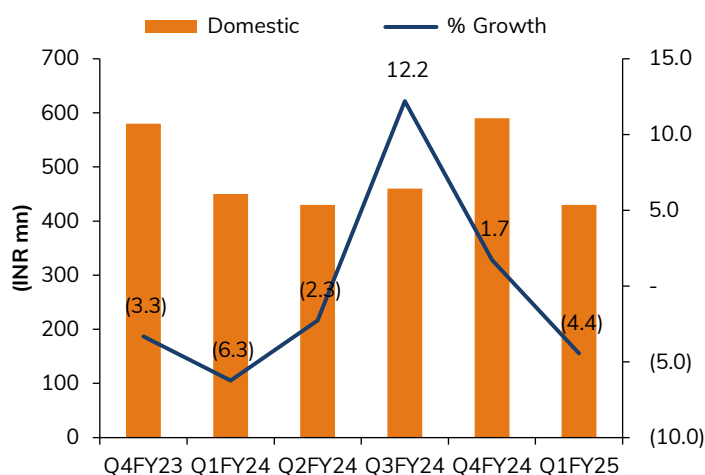
We reduce our FY25E/FY26E EPS by 12%/10.8% to factor in lower sales and margins of Nerbe. We expect revenue to grow at 22.4% CAGR with EBITDA/PAT CAGRs of 19.1%/24.5% over FY24–26E. Margins may decline by 180bps to 31.9% in FY26E due to overheads pertaining to commissioning of new plants. We expect RoE/RoCE of 9.4%/7.6% in FY26E. The stock has corrected ~24%, post the announcement of the acquisition of Nerbe – potentially, factoring in its impact on near-term performance of the company. The stock currently trades at valuations of 41.1x FY25E and 36.2x FY26E earnings and EV/EBITDA multiple of 21.6x FY25E and 18.5x FY26E. We lower our rating to **REDUCE** (from Add) and our target price to INR 408 (earlier INR 445) at 17x FY26E EV/EBITDA (unchanged).

Key downside risks: Better utilization of new facility, earlier recovery of margin in base business.

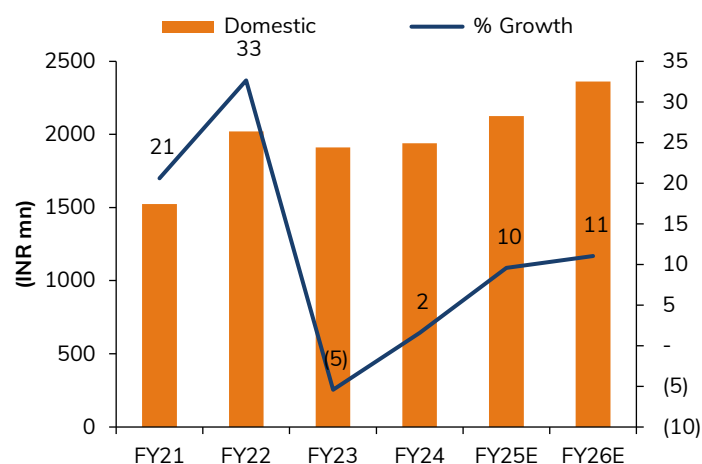
Exhibit 1: Quarterly review

INR mn	Q1FY25	Q1FY24	YoY %	Q4FY24	QoQ %	FY24	FY23	YoY %
Net Sales	848	626	35.5	1,057	(19.8)	2,964	2,832	4.6
Gross Profit	571	470	21.5	725	(21.2)	2,142	2,182	(1.8)
Gross margins (%)	67.4	75.1	-780bps	68.6	-120bps	72.3	77.0	-480bps
EBITDA	218	241	(9.7)	339	(35.9)	998	1,298	(23.1)
EBITDA margins (%)	25.7	38.5	-1290bps	32.1	-650bps	33.7	45.8	-1210bps
Other income	29	23	28.5	34	(13.9)	115	119	(3.8)
PBIDT	247	264	(6.4)	373	(33.9)	1,113	1,417	(21.5)
Depreciation	110	83	32.9	123	(10.5)	404	285	41.7
Interest	43	24	79.3	43	1.5	101	45	126.5
PBT	93	157	(40.5)	207	(55.1)	608	1,087	(44.1)
Tax	23	33	(29.3)	67	(65.8)	181	280	(35.3)
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	70	124	(43.4)	140	(49.9)	426	807	(47.2)
Adjusted PAT	59	117	(49.3)	126	(52.8)	426	807	(47.2)

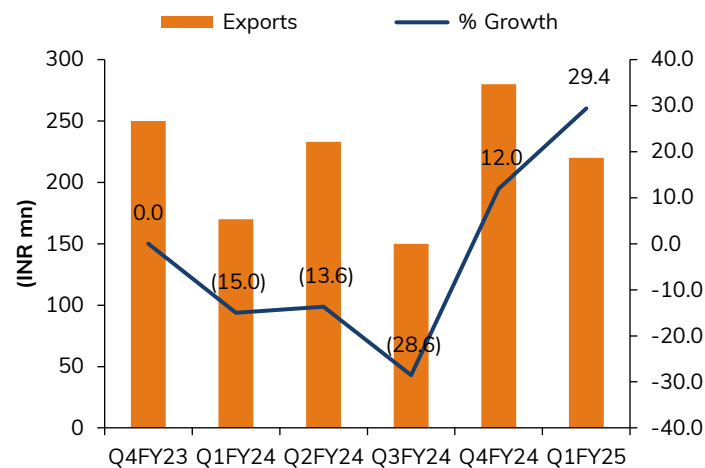
Source: I-Sec research, Company data

Exhibit 2: Stable outlook for domestic market

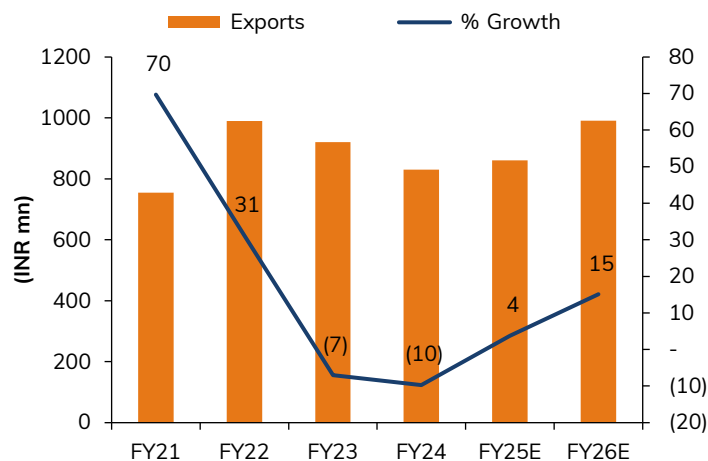
Source: Company data, I-Sec research

Exhibit 3: New launches and capacities may prop up growth in domestic business

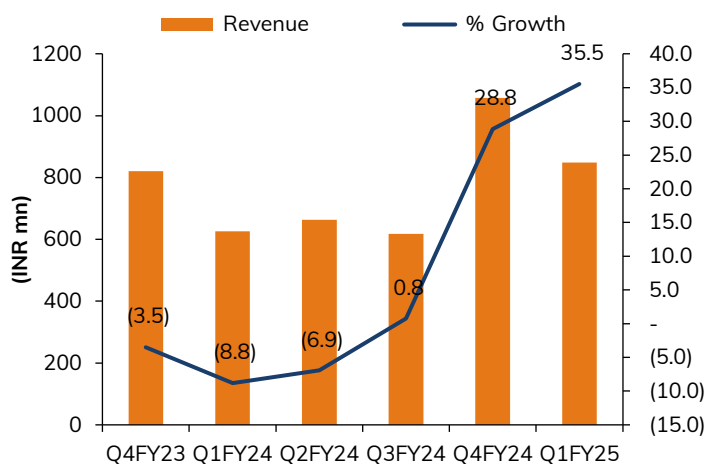
Source: Company data, I-Sec research

Exhibit 4: Exports revert to growth track

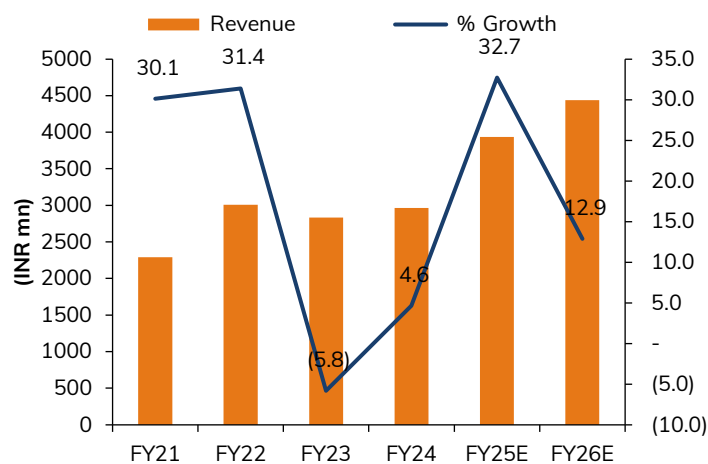
Source: Company data, I-Sec research

Exhibit 5: Export growth may be driven by foray in new geographies

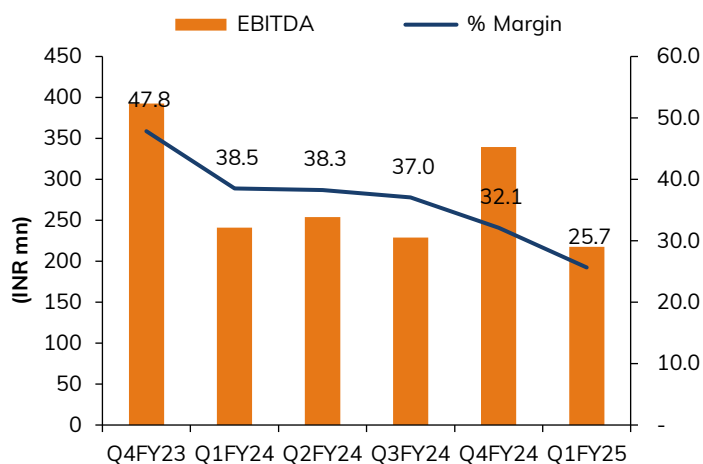
Source: Company data, I-Sec research

Exhibit 6: Revenue declined 35.5% YoY

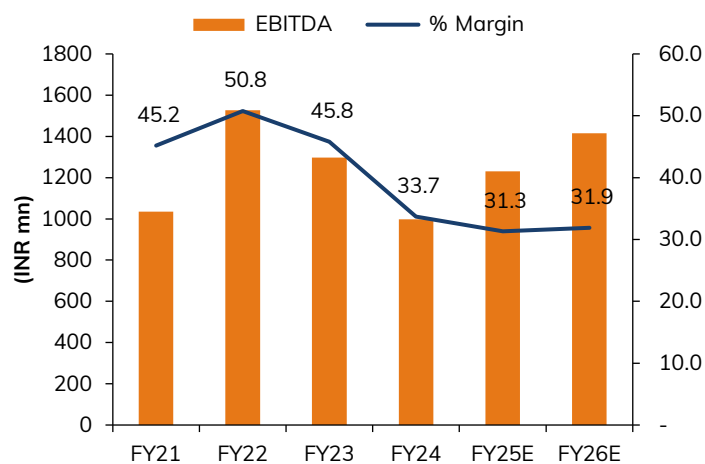
Source: Company data, I-Sec research

Exhibit 7: FY24–26E revenue to grow at 22.4% CAGR

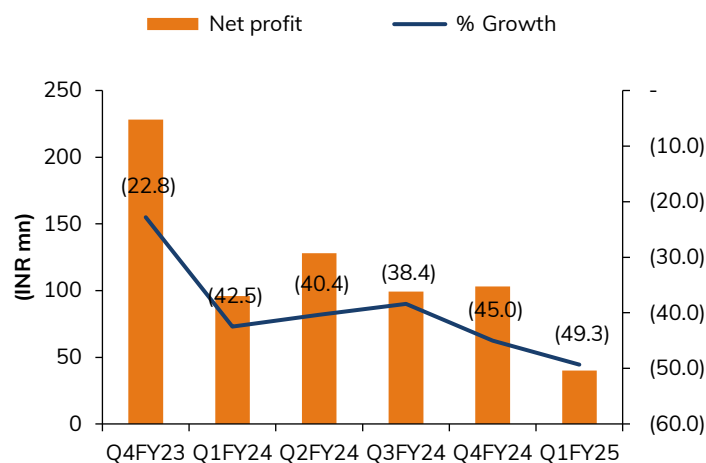
Source: Company data, I-Sec research

Exhibit 8: Margins contracted due to increasing cost and Nerbe

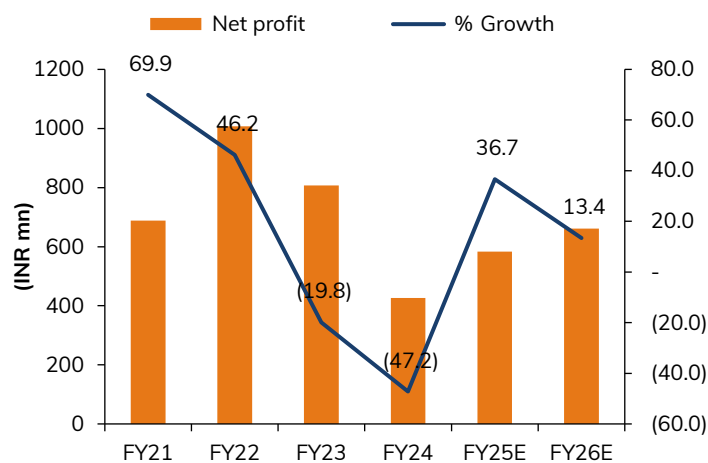
Source: Company data, I-Sec research

Exhibit 9: Commercialisation of new plants may keep margins in check in the near term

Source: Company data, I-Sec research

Exhibit 10: Adj. PAT declined 49.3% YoY

Source: Company data, I-Sec research

Exhibit 11: Profit growth uptick likely in FY25E

Source: Company data, I-Sec research

Exhibit 12: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	47.3	47.3	47.3
Institutional investors	9.4	8.3	8.2
MFs and other	2.2	0.0	0.1
FIs/ Banks	-	-	-
Insurance Cos.	0.0	0.0	0.1
FIs	7.2	8.3	8.0
Others	43.3	44.4	44.5

Source: Bloomberg, I-Sec research

Exhibit 13: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	2,832	2,964	3,933	4,439
Operating Expenses	884	1,144	1,487	1,665
EBITDA	1,298	998	1,231	1,416
EBITDA Margin (%)	45.8	33.7	31.3	31.9
Depreciation & Amortization	285	404	497	610
EBIT	1,013	594	734	806
Interest expenditure	45	101	108	95
Other Non-operating Income	119	115	152	172
Recurring PBT	1,087	608	779	883
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	(280)	(181)	(196)	(222)
PAT	807	426	583	661
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	807	426	583	661
Net Income (Adjusted)	807	426	583	661

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	2,520	2,353	1,442	1,628
of which cash & cash eqv.	600	226	(190)	(214)
Total Current Liabilities & Provisions	330	559	515	528
Net Current Assets	2,191	1,794	927	1,100
Investments	41	47	50	52
Net Fixed Assets	2,177	2,478	5,232	5,222
ROU Assets	66	188	188	188
Capital Work-in-Progress	1,190	2,670	670	670
Total Intangible Assets	5	691	691	691
Other assets	1,236	1,252	1,661	1,875
Deferred Tax assets	22	42	42	42
Total Assets	6,927	9,163	9,461	9,840
Liabilities				
Borrowings	1,106	2,568	2,268	1,968
Deferred Tax Liability	54	92	92	92
provisions	-	2	-	-
other Liabilities	73	250	263	276
Equity Share Capital	5,693	6,129	6,711	7,372
Reserves & Surplus	-	-	-	-
Total Net Worth	5,693	6,129	6,711	7,372
Minority Interest	-	-	-	-
Total Liabilities	6,927	9,163	9,461	9,840

Source Company data, I-Sec research

Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	756	1,027	1,239	968
Working Capital Changes	(349)	86	470	(187)
Capital Commitments	(1,889)	(1,840)	(1,252)	(602)
Free Cashflow	2,645	2,867	2,491	1,570
Other investing cashflow	104	(1,010)	-	-
Cashflow from Investing Activities	(1,785)	(2,850)	(1,252)	(602)
Issue of Share Capital	-	-	-	-
Interest Cost	(45)	(101)	(108)	(95)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
Others	816	438	(295)	(295)
Cash flow from Financing Activities	771	337	(403)	(389)
Chg. in Cash & Bank balance	(259)	(1,486)	(417)	(24)
Closing cash & balance	600	(886)	(190)	(214)

Source Company data, I-Sec research

Exhibit 17: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	15.2	8.0	11.0	12.4
Adjusted EPS (Diluted)	15.2	8.0	11.0	12.4
Cash EPS	20.5	15.6	20.3	23.9
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	107.0	115.2	126.1	138.6
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	(5.8)	4.6	32.7	12.9
EBITDA	(15.0)	(23.1)	23.3	15.0
EPS (INR)	(19.8)	(47.2)	36.7	13.4
Valuation Ratios (x)				
P/E	29.7	56.1	41.1	36.2
P/CEPS	21.9	28.8	22.2	18.8
P/BV	4.2	3.9	3.6	3.2
EV / EBITDA	18.8	26.3	21.4	18.4
P / Sales	8.5	8.1	6.1	5.4
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	77.0	72.3	69.1	69.4
EBITDA Margins (%)	45.8	33.7	31.3	31.9
Effective Tax Rate (%)	25.8	29.8	25.2	25.2
Net Profit Margins (%)	28.5	14.4	14.8	14.9
NWC / Total Assets (%)	31.8	22.1	12.6	13.7
Net Debt / Equity (x)	0.1	0.4	0.4	0.3
Net Debt / EBITDA (x)	0.4	2.3	2.0	1.5
Profitability Ratios				
RoCE (%)	13.8	6.2	7.1	7.6
RoE (%)	15.2	7.2	9.1	9.4
RoIC (%)	15.7	6.5	7.1	7.4
Fixed Asset Turnover (x)	0.5	0.4	0.4	0.4
Inventory Turnover Days	143	162	87	81
Receivables Days	82	98	78	72
Payables Days	12	18	11	10

Source Company data, I-Sec research

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