



IPO Report

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13th Nov'21

Snapshot

Tarsons Products Ltd is an Indian labware company engaged in the designing, development, manufacturing and marketing of 'consumables', 'reusables' and 'others' including benchtop equipment, used in various laboratories across research organizations, academia institutes, pharmaceutical companies, Contract Research Organizations ("CROs"), Diagnostic companies and hospitals.

VALUATION

Company is bringing the issue at price band of Rs 635-662 per share at p/e multiple of 34 on post issue FY21 eps. Company being supplier to life science sector has range of labware products across varied customer segments & is operating in an industry which has an addressable market. Also, company is well-equipped and automated manufacturing facilities with geographic reach through strong sales and distribution network has experienced Promoter backed by a strong management team. Hence we recommend "Subscribe" on issue.

Price Band (Rs./Share)	635-662
Opening date of the issue	15th November 2021
Closing Date of the issue	17th November 2021
No of shares pre issue	45,834,067 Eq Shares
Issue size	Rs 988-1023 Cr
Fresh Issue	Rs 150 Cr
Offer For Sale (No)	13200,000 Eq Shares
Face Value (Rs/ share)	2
Bid Lot	22
Employee Discount	Rs 61/share

BIDDING DETAILS

QIBs	50% of the offer (Approx 7702000 Eq Shares)
Non-Institutional	15% of the offer (Approx 2310000 Eq Shares)
Retail	35 % of the offer (Approx 5392000 Eq Shares)
Lead managers	ICICI Securities, Edelweiss Financial Services Ltd, SBI Capital Markets Ltd
Registrar to the issue	KFin Technologies Pvt. Ltd.

WHAT WE LIKE

Strong clientele

TPL cater to a diverse range of end customers across various sectors which include research organizations, academic institutions, pharmaceutical companies, CROs, diagnostic companies, and hospitals. Some of company's end customers include customers such as Indian Institute of Chemical Technology, National Centre for Biological Sciences across academic institutes and research organizations; Dr Reddy's Laboratories, Enzene Biosciences across pharmaceutical sectors; Syngene International, Veeda Clinical Research across CROs; and Molbio Diagnostics, Agappe Diagnostic, Metropolis Healthcare, Dr. Lal Path Labs, Mylab Life Solutions across other sectors such as diagnostics.

Healthy Sectoral Outlook

With high penetration expected in the coming years, plastic labware is expected to replace glassware products by another 15.00% to reach a market share of approximately 67.00% in the global laboratory equipment market by Fiscal 2025, given plastic products are superior in terms of shelf life, handling, and safety benefits. As a result, the global plastic laboratory products market is expected to grow at a higher CAGR of approximately 10.50% to reach approximately USD 13.8 billion by Fiscal 2025.

Wide geographic reach through pan India sales and distribution network

Company's distribution network across India comprises over 141 authorized distributors as at June 30, 2021. Its extensive and dedicated distribution network enables company to serve its customers in an efficient and timely manner. Company has a loyal distribution network as most of its key distribution partners have been associated with company for more than the last two decades. For the three months ended June 30, 2021 and June 30, 2020 and in Fiscals 2021, 2020 and 2019, revenue generated from sales through company's top 10 distributors represented 37.45%, 41.95%, 55.90%, 54.80% and 59.70% of its revenue from operations, respectively.



COMPANY BACKGROUND

TPL manufacture a range of quality labware products which helps advance scientific discovery and improve healthcare. As of June 30, 2021 company had a diversified product portfolio with over 1,700 SKUs across 300 products. Company's product portfolio is classified into three key categories which include consumables, reusables, and others. 'Consumables' category includes products such as centrifuge ware, cryogenic ware, liquid handling, PCR consumables and petri dish, transfer pipettes and others. 'Reusables' category includes products such as bottles, carboys, beakers, measuring cylinders and tube racks. 'Others' category includes benchtop instrumentation such as vortex shakers, centrifuges pipettors and others.

Company currently operate through its five manufacturing facilities located in West Bengal. These facilities are vertically integrated and equipped with automated support systems that help maintain quality, increase productivity, and reduce costs. Company's key manufacturing facilities are ISO 9001:2015 and ISO 13485:2016/NS-EN ISO 13485:2016 certified. In addition, company have received CE-IVD certificate for its products such as micro and macro tips, cryo vials and centrifuge tubes which indicates that the products of the company have been assessed by the manufacturer and deemed to meet EU safety, health and environmental protection requirements enabling company access to the European region.

Brief description of some of company's key products under 'consumables' product category set out below:

1. **Pipette Tips:** Company manufacture micro and macro pipette tips which range from sizes 10 µl to 10 ml. Company provide pipette tips both with and without embedded filter, sterilized and non-sterilized. These are used to collect and transfer precision quantity of liquids during the research and then discard.
2. **Centrifuge ware:** Company manufacture and sell the micro centrifuge tubes (snap cap and screw cap) as well as 15 and 50ml centrifuge tubes which are produced with premium grade virgin polypropylene. Micro centrifuge tubes are specifically used for storing, spinning down and reaction process. These can also be used for storage of reagents, enzymes, viral transport medium and other diagnostics and biochemical reagents or samples.
3. **Petri dishes:** Company manufacture petri dishes with virgin biomedical graded polystyrene. These are used for culture of Petri dishes: Company manufacture petri dishes with virgin biomedical graded polystyrene. These are used for culture of microbes & sensitivity assays used & discard. This helps eliminate time consumed in washing & sterilization of their glass equivalent.
4. **Cryo ware:** Cryo vials are specially designed for storing biological materials at temperatures as low as -196°C (vapour phase of liquid nitrogen) & up to 121°C and used for bio banking. Company's cryo vials complies with IATA requirements of withstanding evacuation to 95kPa without leaking and thus are suitable for transport of diagnostic specimen.
5. **Storage Vials:** Company use premium grade virgin polypropylene to manufacture storage vial of various sizes ranging from 1 ml to 10 ml. These vials are used to store the samples in different temperatures ranging from -80-degree C to 121-degree C.

Source:RHP



INVESTMENT RATIONALE

<i>Leading Indian supplier to life sciences sector with strong brand recognition and quality products</i>	Company is an Indian labware company engaged in the designing, development, manufacturing and marketing of consumables, reusables and bench-top equipment. With over 36 years of experience in this space, company have successfully built 'Tarsons' into a leading Indian company in terms of revenue in the plastic labware market in India and gained expertise in the production of a wide range of labware products. In the year 2020, company had a market share of 9.00-12.00% of the labware market in India
<i>Wide geographic reach through company's pan India sales and distribution network</i>	Company have a pan India sales and distribution network that enables to cater to a wide range of end customers, thereby ensuring effective penetration of its diverse range of products. As a result of company's pan India distribution network and its ability to distribute products on a pan-India basis, company have been able to develop a comprehensive customer base that differentiates company from its competitors. Company's distribution network across India comprises over 141 authorized distributors as at June 30, 2021. Company's extensive and dedicated distribution network enables to serve its customers in an efficient and timely manner. Company's distribution network globally comprises over 45 authorized distributors and partners as at June 30, 2021. As of Fiscal 2021, company supplied products to over 40 countries.
<i>Well-equipped and automated manufacturing facilities</i>	Company has a robust QA and QC process with dedicated laboratory for raw material and product testing. Company's statistical process controls help to ensure consistent dimensions of its products and in-line finishing inspections ensure compliance with the quality standards. Company's manufacturing units are well equipped with experienced and qualified staff to carry out these quality checks and inspections at all stages of the manufacturing process. Company became an ISO 9001:2015 and ISO 13485:2016/NS-EN ISO 13485:2016 accredited manufacturing entity in the years 2018 and 2021, respectively.
<i>Experienced Promoter backed by strong management team</i>	Company have a management team with significant experience in the life sciences industry and is led by Chairman and Promoter, Sanjive Sehgal, who has over 30 years of experience in the labware manufacturing sector in India. Company's business operations are led by its whole-Time Director, Mr. Rohan Sehgal who has 7 years of experience in life sciences industry, is supported by other senior management team members. The experience of company's management team has enabled to extend its operating capabilities, improve the quality of company's products and facilitated company's growth in the life sciences industry. Company's management team has ingrained the culture of innovation and development in company which has helped company to build a strong brand and identify new business opportunities.



Manufacturing Facilities



Source : RHP

OBJECTS OF ISSUE

Company proposes to utilise the Net Proceeds towards funding of the following objects:

1. Repayment/prepayment of all or certain of company's borrowings;
2. Funding a part of the capital expenditure for the new manufacturing facility at Panchla, West Bengal (the "Proposed Expansion"); and
3. General corporate purposes.

RISKS

Company imports over 75.00% of raw materials and any delay, interruption, or reduction in the supply of raw materials to manufacture company's products may adversely affect company's business, results of operations, cash flows and financial condition.

Source:RHP



INDUSTRY OVERVIEW

Global Laboratory Equipment Market Overview

Laboratory equipment are the tools used by the lab technicians or scientists to perform various tasks such as analysis of the biological samples of patients, preparation of cell culture mediums for research, studying cells for diagnosis of various diseases, and others. These equipments include spectrophotometers, centrifuges, hot plate stirrers, and others. Moreover, laboratory activities also require other tools that can be disposed after use such as petri dish, pipettes, tips, vials and others. These consumables are an integral part of the laboratory tasks as these are used in every task performed. The other important segment is the reusable segment made up of reusable items like the bottles, flasks, carboys among others. The laboratories perform clinical testing, pathological testing, and microbiological testing by using these equipment, consumables and reusables.

Global Market Growth and Overview for PCR, Cell Culture and other Products

The laboratory equipment market for new products namely, PCR products, Cell Culture (plasticware) market was estimated to be around USD 3.8 Bn (INR 274.4 Bn) for the year 2020. The market has seen a considerable growth in the past of a CAGR of 7.9% and is expected to grow at almost double the historic growth at ~14.2% during the forecast period to reach USD 7.3 Bn (~INR 534.1 Bn) by 2025. While the products are still growing, the pandemic led to a fast growth in the demand for PCR products in the year 2020 making them contribute to over 60-65% of the total demand. The global PCR supplies and cell culture supplies market for the year are estimated to account for USD 2.05-2.13 Bn (INR 150-155 Bn) and USD 1.37-1.45 Bn (INR 100-105 Bn) respectively.

India Market Growth and Overview for New Products

India is a fast growing market making up for ~1.8% of the total global demand for these new products mainly consuming PCR products. India demand for these new products is expected to grow at a rate higher than the global rate of ~18%. India will effectively make up for ~2.2% of the global demand by 2025. The growth in demand will be driven mainly through the rise in chronic diseases and impact of COVID-19.

Key Market Trends and Growth Drivers

Costly chronic care needs are growing and exerting considerable demand on health systems: Chronic diseases and conditions are on the rise worldwide. An ageing population and changes in societal behaviour are contributing to a steady increase in these common and costly long-term health problems. The middle class is growing; and with urbanisation accelerating, people are adopting a more sedentary lifestyle. This is pushing obesity rates and cases of diseases such as diabetes upward. Emerging markets will be hardest hit in terms of chronic diseases, as population growth is anticipated be most significant in developing nations. Growth in chronic diseases will drive the improvement and growth in the healthcare market which will effectively drive the lab equipment market.

Increasing R&D activity: Pharmaceutical and biotechnology companies, being an integral part of the healthcare industry, invest heavily in research to develop breakthrough molecules to meet the growing needs of the healthcare sector. Moreover, the impending patent cliff has also led to an increase in biopharmaceutical research activity.

Companies operating in the life science instruments and lab equipment market have also increased their R&D investments for the development of innovative products to meet the research requirements of pharmaceutical and biotechnology companies.

Growth in Pharmaceutical R&D Outsourcing: The global pharmaceutical outsourcing market size was valued at INR 2,250 Bn in 2020 and is expected to grow at a CAGR of over 9-11% over the forecast period. Pharmaceutical companies are increasingly outsourcing research activities to academic and private contract research organizations (CROs) as a strategy to stay competitive and flexible in a world of exponentially growing knowledge, increasingly sophisticated technologies and an unstable economic environment.

The R&D tasks that firms choose to outsource include a wide spectrum of activities from basic research to late-stage development: genetic engineering, target validation, assay development, hit exploration and lead optimization (hit candidates-as-a-service), safety and efficacy tests in animal models, and clinical trials involving humans.

Getting ideas and expertise from external sources is a well-established practice in the pharmaceutical industry with about one-third of all drugs in the pipelines of the top ten pharmaceutical companies initially developed elsewhere AstraZeneca's global biologics research and development arm MedImmune has already been collaborating with The University of Texas MD Anderson Cancer Centre towards developing immunotherapies against cancer.

Pandemic: Another rising health concern is global pandemics. The pandemics/epidemics of the past decade have clearly demonstrated the speed at which infections spread across the globe; Ebola, SARS, MERS, and H1N1—to name but a few. Pandemics will in all likelihood exert periodic and significant disruptive pressure on health systems. Healthcare organisations across the globe need to be ready to work together to contain outbreaks quickly when they occur.



(Rs in Mn)

Financials	Q1FY22	FY21	FY20	FY19
Total Revenue (A)	691.50	2289.11	1759.02	1787.48
Total Expenditure (B)	323.89	1254.73	1066.48	1070.81
EBIDTA	367.61	1034.38	692.54	716.67
EBIDTA Margin	53.16	45.19	39.37	40.09
Other Income	19.77	53.80	41.52	59.71
Depreciation	45.65	136.62	141.70	145.64
EBIT	341.73	951.56	592.36	630.74
Interest	8.32	27.22	61.03	72.49
PBT	333.41	924.34	531.33	558.25
Tax	85.06	235.64	126.02	168.67
PAT	248.35	688.70	405.31	389.58
NPM	35.91	30.09	23.04	21.79
ROE %	9.23	28.19	20.51	28.80
EPS	4.88	13.52	7.96	7.65
Eq Cap	101.88	1.92	2.00	1.92
Net Worth	2689.62	2443.38	1975.69	1352.73



PEERS ANALYSIS

Following is peer group analysis:

Key Financials of major Global and Indian Medical Devices, Consumable and Services and Lab Equipment Manufacturers

Companies	Country of incorporation	Revenue 2020	Net Profit 2020	EBITDA Margin %	Net Margin % 2020	ROE (%) 2020	ROCE (%) 2020
Tarsons	<i>India</i>	1.7 (INR Bn)	0.4 (INR Bn)	40.1	21.7	19.5	25.5
ThermoFisher Scientific (Global)	<i>United States of America</i>	32.2 (USD Bn)	6.4 (USD Bn)	31.4	19.8	18.5	12.7
Eppendorf (Global)	<i>Germany</i>	967.2 (Euro Mn)	152.5 (Euro Mn)	22.9	15.8	18.9	18.7
Corning (Global)	<i>United States of America</i>	11.3 (USD Bn)	0.5 (USD Bn)	21.4	4.5	3.8	3.3
Guangzhou Jet Bio-Filtration	<i>China</i>	500.7 (CNY Mn)	119.4 (CNY Mn)	32.6	23.8	15.0	15.7
Genaxys Scientific	<i>India</i>	221.8 (INR Mn)	5.1 (INR Mn)	3.8	2.3	4.5	6.7
Accumax Lab Devices	<i>India</i>	550.1 (INR Mn)	7.3 (INR Mn)	30.1	1.3	0.9	3.2
Abdos	<i>India</i>	336.1 (INR Mn)	3.8 (INR Mn)	13.8	1.1	NM	3.4

EBITDA= Profit before tax + Depreciation & Amortisation Expenses + Net Finance Costs

EBITDA Margin (%) = EBITDA/Total Revenue

Net Profit Margin (%) = Net Profit/Total Revenue

ROE (%) = Net Income/Net worth

ROCE (%) = EBIT/Capital Employed

EBIT= Profit before tax + Net Finance Costs

Capital Employed= Total Assets-Current Liabilities- Short Term Borrowings

NM= Non-Meaning Full

Tarsons, Genaxys Scientific, Accumax Lab, Abdos, data for FY20 [April 01, 2019- March 31, 2020]

ThermoFisher Scientific (Global), Eppendorf (Global), Corning (Global), Guangzhou Jet Bio-Filtration data for CY20 [January 01, 2020 - December 31, 2020]

Source: RHP



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