

01 June 2024

India | Equity Research | Q4FY24 results review

## Tarsons Products

Pharma

### Nerbe acquisition weighs on performance

The acquisition of Nerbe's (Germany) low-margin business and a slowing in the life sciences industry impacted Tarsons Products' (Tarsons) Q4FY24 performance; its numbers fell short of our expectations too. Tarson's standalone business fared better – exports grew faster, at ~12% YoY in Q4FY24, and domestic sales were up ~2% YoY. Panchla plant is expected to commence operations in Q2FY25 while the cell culture unit will be operational in Q4FY25. The Panchla plant can generate revenues of INR 4bn at peak capacity in three–five years post commercialisation. We cut FY25E/26E EPS by 20%/29%, factoring in lower sales and margins of Nerbe (CY23 revenue/EBITDA of EUR 8mn/EUR 0.2mn). We lower our rating to **ADD** (Buy earlier). TP revised to INR 445 at 17x FY26E EV/EBITDA (from INR 625 at 17x FY26E EV/EBITDA).

### Revenue growth picking up, margins though muted

Tarsons' Q4FY2e 4 revenue grew 28.8% YoY (down 71.1% QoQ) to INR 1.1bn (I-Sec: INR 966mn) supported by exports and the acquisition of Nerbe. Gross margin contracted 660bps YoY (-450bps QoQ) to 68.6%, marred by change in product mix. EBITDA declined 13.5% YoY (+48.3% QoQ) to INR 339mn (I-Sec: INR 394mn), margin contracted 1570bps (-490bps QoQ) to 32.1%. Adj. PAT declined 45% YoY (+26.5% QoQ) to INR 126mn (I-Sec: INR 195mn).

### Standalone business' sales growth reviving

Tarson's domestic business accounted for 59% of its Q4FY24 standalone revenue, growing 1.7% YoY/28.3% QoQ to INR 590mn driven by a revival in demand from key customers. Share of exports rose to 44% of sales, as against 29% in Q4FY23 and 26% in Q3FY23. Export revenue grew 12%/86.7% QoQ to INR 280mn. Leveraging Nerbe's distribution strength and manufacturing capabilities in India, Tarson aims to improve its export footprint to ~120 countries (45 currently) in the next five–ten years.

### Capacity expansion on track

Tarsons is incurring capex of INR 6bn (INR 4.5bn spent so far) for two new plants at Panchla and Amta. The Panchla plant will be commercialised in Q2FY25 and may reach optimum capacity utilisation in the next four–five years; it can potentially generate revenue of ~INR 4bn at peak utilisation. The Amata plant may not add incremental revenues to the company.

### 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	1,338	1,522
EBITDA Margin (%)	45.8	33.7	34.0	34.3
Net Profit	807	426	663	741
EPS (INR)	15.2	8.0	12.5	13.9
EPS % Chg YoY	(19.8)	(47.2)	55.4	11.8
P/E (x)	27.3	51.7	33.3	29.8
EV/EBITDA (x)	17.3	24.4	18.2	15.8
RoCE (%)	13.8	6.2	7.9	8.3
RoE (%)	15.2	7.2	10.3	10.3

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#### Market Data

Market Cap (INR)	22bn
Market Cap (USD)	264mn
Bloomberg Code	TARSONS IN
Reuters Code	TARO BO
52-week Range (INR)	646 /390
Free Float (%)	29.0
ADTV-3M (mn) (USD)	0.4

Price Performance (%)	3m	6m	12m
Absolute	(11.4)	(8.7)	(25.9)
Relative to Sensex	(13.4)	(19.1)	(44.0)

Earnings Revisions (%)	FY25E	FY26E
Revenue	(12.7)	(14.8)
EBITDA	(20.2)	(23.3)
EPS	(20.2)	(29.3)

#### Previous Reports

17-02-2024: [Q3FY24 results review](#)  
23-12-2023: [Company Update](#)

## Valuation

Tarson's base business is showing signs of revival with the company registering growth across India and its export geographies in a seasonally strong quarter. Outlook for its base business is improving, as per management, and the business is expected to book EBITDA margins of 40%, as growth picks up in this portfolio. Tarsons had acquired Germany-based Nerbe (EUR 8mn revenue in CY24) in Dec'23; Q4FY24 was the first full-quarter of acquiring this business. Management envisages peak margins in the business to be between ~14–15%, as it plans to shift manufacturing of over 2,000 of Nerbe's SKUs to Tarson's India-based plants. Consolidation of Nerbe and commercialisation of the two new plants are expected to keep margins in check.

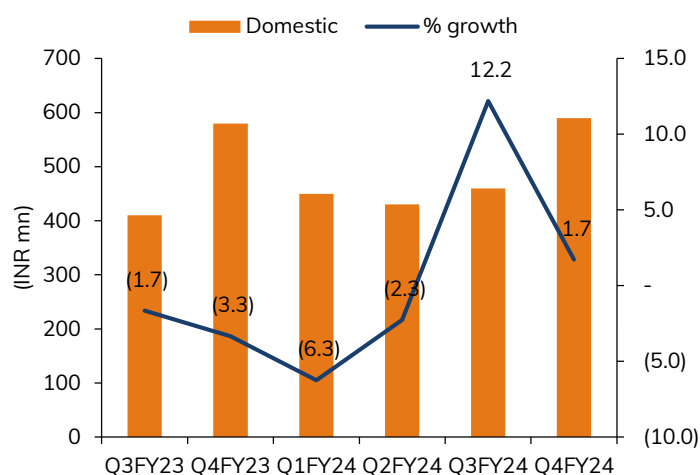
We reduce our FY25E/FY26E EPS by 20%/29% to factor in lower sales and margins of Nerbe. We expect revenue to grow at 22.4% CAGR with EBITDA/PAT CAGRs of 23.5%/31.8% over FY24–26E. Margins may improve a mere 60bps to 34.3% in FY26E due to overheads pertaining to commissioning of new plants. We expect RoE/RoCE of 10.3%/8.3% in FY26E. The stock has corrected ~24% post the announcement of the acquisition of Nerbe, factoring in its impact on near term performance of the company. The stock currently trades at valuations of 33.3x FY25E and 29.8x FY26E earnings and EV/EBITDA multiple of 18.4x FY25E and 15.9x FY26E. We lower our rating to **ADD** (from Buy) with a lower target price of INR 445 at 17x FY26E EV/EBITDA (earlier TP INR 625, based on 17x FY26E EV/EBITDA).

**Key downside risks:** Intensified competition; and disruption in distribution network.

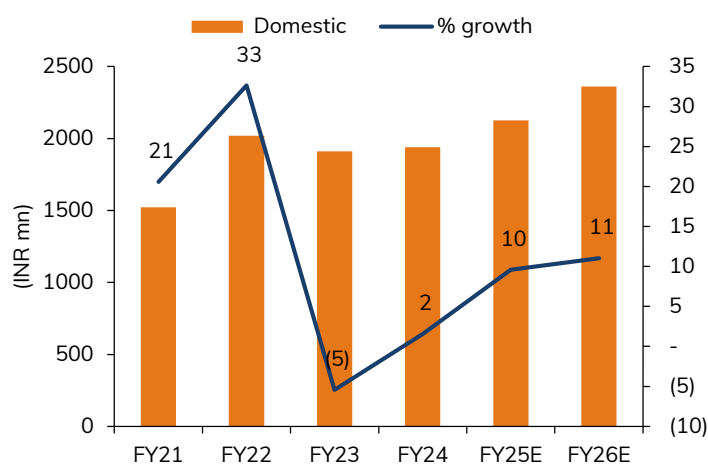
## Exhibit 1: Quarterly review

INR mn	Q4FY24	Q4FY23	YoY %	Q3FY24	QoQ %	FY24	FY23	YoY %
<b>Net Sales</b>	<b>1,057</b>	<b>821</b>	<b>28.8</b>	<b>618</b>	<b>71.1</b>	<b>2,964</b>	<b>2,832</b>	<b>4.6</b>
Gross Profit	725	617	17.5	451	60.7	2,142	2,182	(1.8)
Gross margins (%)	68.6	75.2	-660bps	73.0	-450bps	72.3	77.0	-480bps
EBITDA	339	393	(13.5)	229	48.3	998	1,298	(23.1)
EBITDA margins (%)	32.1	47.8	-1570bps	37.0	-490bps	33.7	45.8	-1210bps
Other income	34	22	55.5	32	4.3	115	119	(3.8)
<b>PBIDT</b>	<b>373</b>	<b>414</b>	<b>(9.9)</b>	<b>261</b>	<b>42.9</b>	<b>1,113</b>	<b>1,417</b>	<b>(21.5)</b>
Depreciation	123	83	49.0	101	22.5	404	285	41.7
Interest	43	21	105.7	25	69.2	101	45	126.5
<b>PBT</b>	<b>207</b>	<b>311</b>	<b>(33.3)</b>	<b>136</b>	<b>53.1</b>	<b>608</b>	<b>1,087</b>	<b>(44.1)</b>
Tax	67	83	(18.6)	36	85.7	181	280	(35.3)
Minority Interest	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>140</b>	<b>228</b>	<b>(38.6)</b>	<b>99</b>	<b>41.2</b>	<b>426</b>	<b>807</b>	<b>(47.2)</b>
<b>Adjusted PAT</b>	<b>126</b>	<b>228</b>	<b>(45.0)</b>	<b>99</b>	<b>26.5</b>	<b>426</b>	<b>807</b>	<b>(47.2)</b>

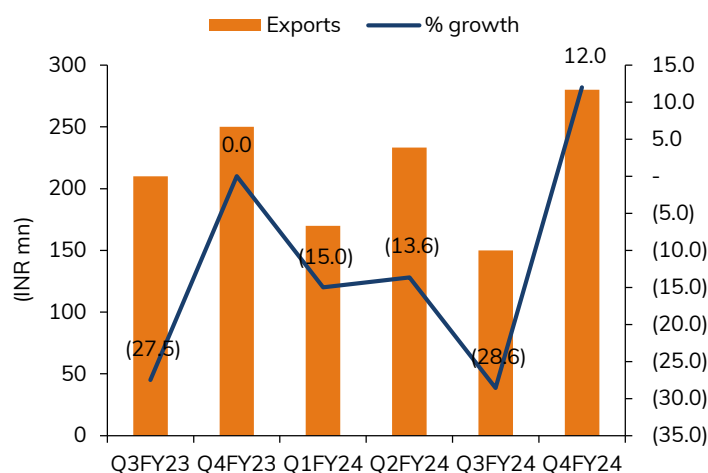
Source: I-Sec research, Company data

**Exhibit 2: Stable outlook for domestic market**

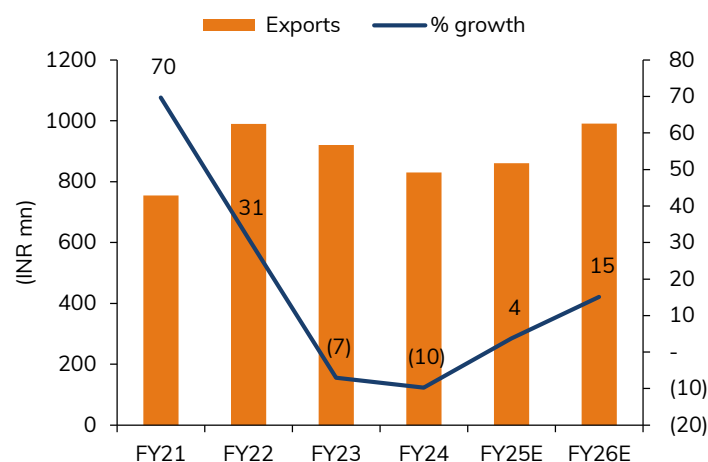
Source: Company data, I-Sec research

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

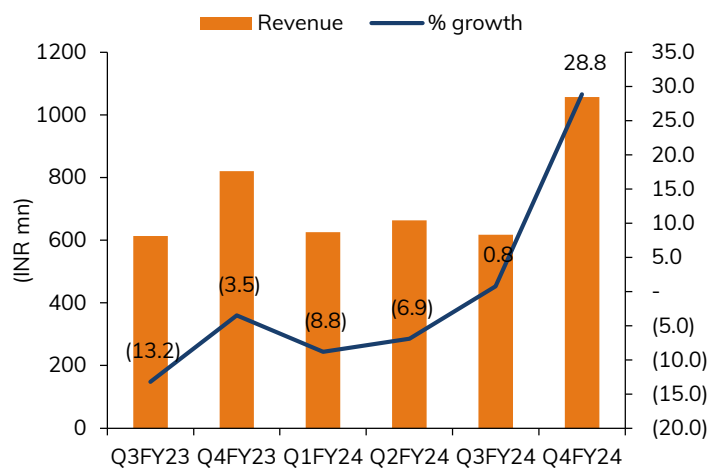
Source: Company data, I-Sec research

**Exhibit 4: Exports revert to growth track**

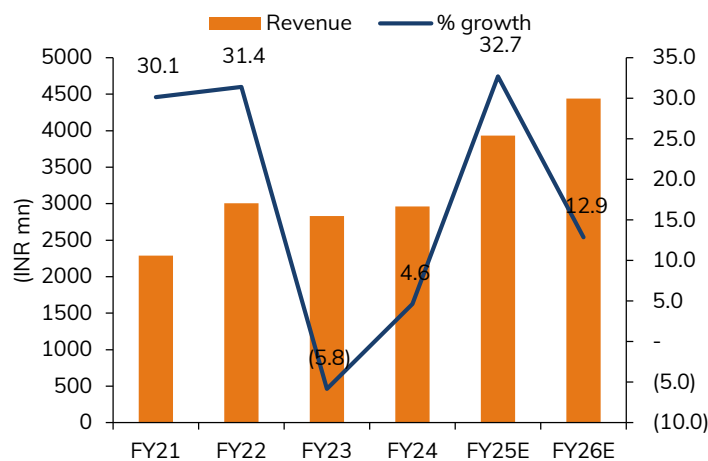
Source: Company data, I-Sec research

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

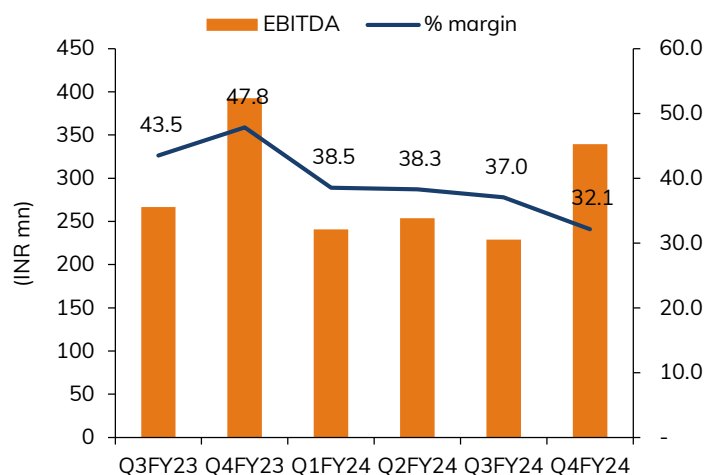
Source: Company data, I-Sec research

**Exhibit 6: Healthy growth in base and Nerbe consolidation boosts growth**

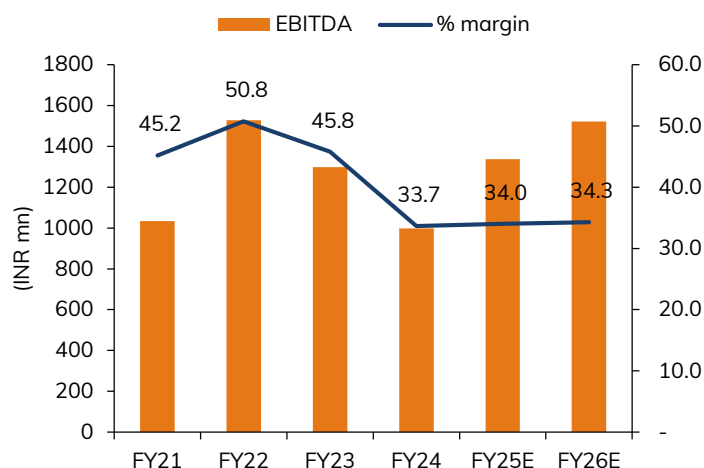
Source: Company data, I-Sec research

**Exhibit 7: Revenue to grow at 22.4% CAGR over FY24-26E**

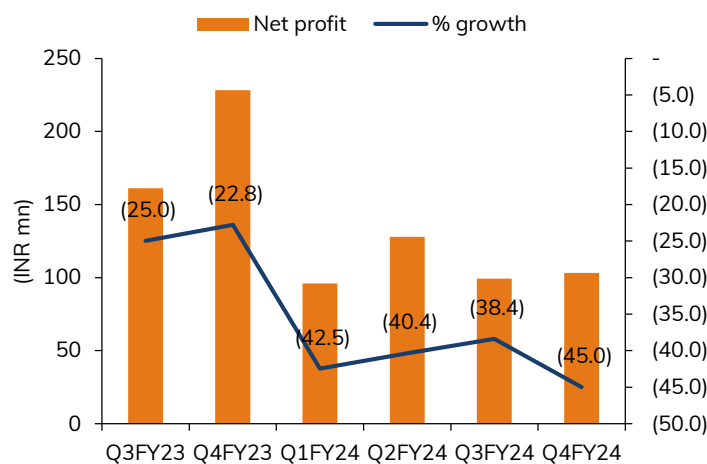
Source: Company data, I-Sec research

**Exhibit 8: Margins contracted due to increasing cost and Nerbe**

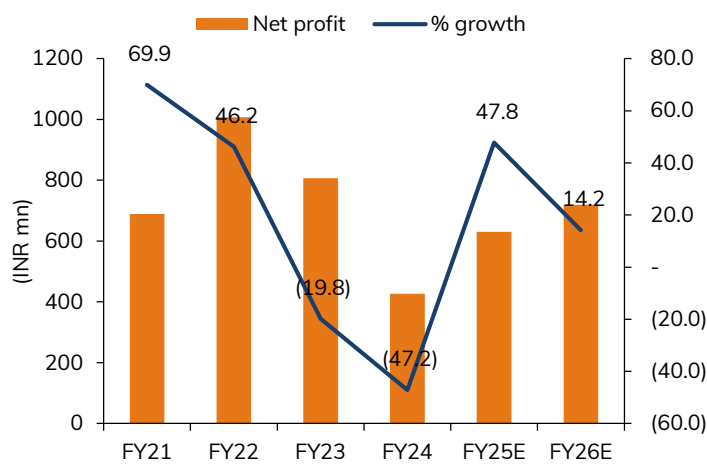
Source: Company data, I-Sec research

**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 45% YoY**

Source: Company data, I-Sec research

**Exhibit 11: Profit growth is likely to pick up in FY25E**

Source: Company data, I-Sec research

**Exhibit 12: Shareholding pattern**

%	Sep'23	Dec'23	Mar'24
Promoters	47.3	47.3	47.3
Institutional investors	11.1	9.4	8.3
MFs and other	2.5	2.2	0.0
FIs/ Banks	-	-	-
Insurance Cos.	0.7	0.0	0.0
FIIIs	7.9	7.2	8.3
Others	41.6	43.3	44.4

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
<b>Operating Expenses</b>	<b>884</b>	<b>1,144</b>	<b>1,455</b>	<b>1,630</b>
EBITDA	1,298	998	1,338	1,522
<b>EBITDA Margin (%)</b>	<b>45.8</b>	<b>33.7</b>	<b>34.0</b>	<b>34.3</b>
Depreciation & Amortization	285	404	497	610
EBIT	1,013	594	841	912
Interest expenditure	45	101	108	95
Other Non-operating Income	119	115	152	172
Recurring PBT	1,087	608	885	990
<b>Profit / (Loss) from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Less: Taxes</b>	<b>(280)</b>	<b>(181)</b>	<b>(223)</b>	<b>(249)</b>
PAT	807	426	663	741
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	807	426	663	741
<b>Net Income (Adjusted)</b>	<b>807</b>	<b>426</b>	<b>663</b>	<b>741</b>

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	1,522	1,787
of which cash & cash eqv.	600	226	(111)	(55)
Total Current Liabilities & Provisions	330	559	515	528
<b>Net Current Assets</b>	<b>2,191</b>	<b>1,794</b>	<b>1,007</b>	<b>1,260</b>
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
<b>Total Assets</b>	<b>6,927</b>	<b>9,163</b>	<b>9,541</b>	<b>10,000</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>1,106</b>	<b>2,568</b>	<b>2,268</b>	<b>1,968</b>
<b>Deferred Tax Liability</b>	<b>54</b>	<b>92</b>	<b>92</b>	<b>92</b>
provisions	-	2	-	-
other Liabilities	73	250	263	276
Equity Share Capital	5,693	6,129	6,791	7,532
Reserves & Surplus	-	-	-	-
<b>Total Net Worth</b>	<b>5,693</b>	<b>6,129</b>	<b>6,791</b>	<b>7,532</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>6,927</b>	<b>9,163</b>	<b>9,541</b>	<b>10,000</b>

Source Company data, I-Sec research

### Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>756</b>	<b>1,027</b>	<b>1,318</b>	<b>1,048</b>
Working Capital Changes	(349)	86	470	(187)
Capital Commitments	(1,889)	(1,840)	(1,252)	(602)
<b>Free Cashflow</b>	<b>2,645</b>	<b>2,867</b>	<b>2,571</b>	<b>1,650</b>
<b>Other investing cashflow</b>	<b>104</b>	<b>(1,010)</b>	<b>-</b>	<b>-</b>
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)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(259)</b>	<b>(1,486)</b>	<b>(337)</b>	<b>56</b>
Closing cash & balance	600	(886)	(111)	(55)

Source Company data, I-Sec research

### Exhibit 17: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	15.2	8.0	12.5	13.9
Adjusted EPS (Diluted)	15.2	8.0	12.5	13.9
Cash EPS	20.5	15.6	21.8	25.4
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	107.0	115.2	127.6	141.6
Dividend Payout (%)	-	-	-	-
<b>Growth (%)</b>				
Net Sales	(5.8)	4.6	32.7	12.9
EBITDA	(15.0)	(23.1)	34.0	13.8
EPS (INR)	(19.8)	(47.2)	55.4	11.8
<b>Valuation Ratios (x)</b>				
P/E	27.3	51.7	33.3	29.8
P/CEPS	20.2	26.5	19.0	16.3
P/BV	3.9	3.6	3.2	2.9
EV / EBITDA	17.3	24.4	18.2	15.8
P / Sales	7.8	7.4	5.6	5.0
Dividend Yield (%)	-	-	-	-
<b>Operating Ratios</b>				
Gross Profit Margins (%)	77.0	72.3	71.0	71.0
EBITDA Margins (%)	45.8	33.7	34.0	34.3
Effective Tax Rate (%)	25.8	29.8	25.2	25.2
Net Profit Margins (%)	28.5	14.4	16.8	16.7
NWC / Total Assets (%)	31.8	22.1	13.3	15.0
Net Debt / Equity (x)	0.1	0.4	0.3	0.3
Net Debt / EBITDA (x)	0.4	2.3	1.7	1.3
<b>Profitability Ratios</b>				
RoCE (%)	13.8	6.2	7.9	8.3
RoE (%)	15.2	7.2	10.3	10.3
RoIC (%)	15.7	6.5	8.0	8.2
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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