

Date: 6th June, 2024

To, BSE Limited ("BSE"), Corporate Relationship Department, 2 nd Floor, New Trading Ring, P.J. Towers, Dalal Street, Mumbai – 400 001	To, National Stock Exchange of India Limited ("NSE") "Exchange Plaza", 5 th Floor, Plot No. C/1, G Block, Bandra-Kurla Complex, Bandra (East), Mumbai – 400 051
BSE Scrip code: 543399	NSE Symbol: TARSONS

Subject: Transcripts of Earnings Conference Call

Dear Sir/Madam,

Pursuant to the provisions of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in continuation to our intimation dated 31st May, 2024, please find enclosed herewith the transcripts of the Investor Conference Call held on Friday, 31st May, 2024, to discuss the financial and operational performance/Audited Financial Results (Consolidated & Standalone) of the Company for the quarter and financial year ended 31st March, 2024.

The transcripts of the said conference call will also be uploaded on the Company's website at www.tarsons.com.

This is for your information and record.

Thanking you,

Yours Faithfully,
For Tarsons Products Limited

Santosh Kumar Agarwal
Company Secretary & Chief Financial Officer
ICSI Membership No. 44836

Encl: As above



“Tarsons Products Limited
Q4FY24 Earnings Conference Call”
May 31, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 31st May 2024 will prevail.



**MANAGEMENT: MR. ROHAN SEHGAL – WHOLE TIME DIRECTOR –
TARSONS PRODUCTS LIMITED
MR. SANTOSH AGARWAL – CHIEF FINANCIAL
OFFICER AND COMPLIANCE OFFICER – TARSONS
PRODUCTS LIMITED**

MODERATOR: MR. KARAN KHANNA – AMBIT CAPITAL

Moderator: Ladies and gentlemen, good day, and welcome to Q4FY24 Earnings Conference Call of Tarsons Products Limited, hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Karan Khanna from Ambit Capital. Thank you, and over to you.

Karan Khanna: Thank you, Yashashvi. Good afternoon, everyone. On behalf of AMBIT Capital, I welcome you all to the Q4FY24 and FY24 earnings conference call of Tarsons Products. From the management today, we have Mr. Rohan Sehgal, Whole-Time Director and Mr. Santosh Agarwal, Chief Financial Officer. Without further ado, I would request Rohan to start with his opening remarks, post which we can open the floor for Q&A. Thank you, and over to you, Rohan.

Rohan Sehgal: Thanks, Karan. Good afternoon, everyone, and a very warm welcome to all on our Q4 and FY24 earnings conference call for Tarsons Products Limited. Along with me today, I am joined by Mr. Santosh Agarwal, Chief Financial Officer and Compliance Officer for Tarsons Products Limited; and SGA, our Investor Relations Advisors. We have uploaded our quarterly investor presentation on the stock exchanges and Company's website. I hope you all have gone through the same.

Firstly, we are pleased to announce that the Board has recommended a final dividend of ₹ 2 per share, 100% of face value on a fully paid-up equity share of ₹2, each for FY24, subject to the approval of the shareholders at the AGM. Let me now start with giving a brief on the industry. The demand of plastic labware has experienced a strong rise over the years, driven by multiple key factors, primarily being substantial increase in investments in R&D.

As various industries continue to prioritize innovation and scientific exploration, the need for reliable and efficient labware has been more pronounced. However, speaking of the recent trends, the life science industry has seen some difficult times in FY22 and '23. We have seen early signs of recovery in the second half of FY24, which we are monitoring closely and taking steps to capitalize on this opportunity. We expect gradual improvement particularly in the pharma, CRO, research and the diagnostic sector. Technological advancements have also played a critical role in propelling the demand for labware.

Innovations in manufacturing process and material science with the development of a more sophisticated plastic labware products that meet stringent requirements of the scientific industry. These advancements ensure that the labware is not only durable and cost-effective, but also capable of withstanding severe conditions such as extreme temperatures and chemical exposure, which are prominently in the laboratory settings.

Additionally, the rising demand from emerging economies like India has significantly contributed to the growth of plastic labware market. As countries with growing scientific and industrial sectors invest in the R&D capabilities, the need for high-quality labware solutions has escalated. This trend is particularly evident in regions that are rapidly expanding their scientific research infrastructure capabilities. This widespread adoption underscores a growing trend towards the preference of plastic labware. As scientific research and industrial applications continue to evolve, the demand for advanced innovative and sustainable labware solutions is expected to maintain its upward trajectory.

Speaking on Tarsons. Tarsons is one of the leading manufacturers of plastic labware products in India, holding a 25% market share in the products we produce. Over the last 4 decades, Tarsons has developed a strong brand and earned the trust of its customers, making us the preferred choice of plastic labware products across various end markets in the country. Our robust distribution network comprises of around 140 distributors in India. In addition, we have a dedicated sales force of more than 40 people who maintain a constant contact with end customers to drive product sales and cross-sell our extensive product portfolio.

In addition to our domestic sales, we work with 45 distributors globally who support our international business. We have adopted a two-pronged strategy for our overseas business, branded sales under our brand and the original design manufacturing, ODM sales under white-label arrangement. In FY '24, the ratio stood as 35:65, 35% for the branded and 65% for ODM.

Now speaking about the recent acquisition. Focusing on the promising growth prospects in the international business, in FY '24, we did a strategic acquisition of Nerbe, a Hamburg-based company specializing in plastic labware products. This deal highlights our confidence in capitalizing on the growing opportunities in the international market.

With Nerbe, we are poised for significant expansion, particularly in the European market by leveraging its established distribution network. By integrating Nerbe's extensive experience and established relationships, we are positioned to offer a broad range of products and services to meet the diverse needs of our international clients. This acquisition unlocks new avenues of growth and propels our business to greater heights overseas.

Speaking on our Q4 and FY '24 performance. Despite the global challenges, we achieved the highest quarterly revenue of ₹ 87 crores in Q4 FY '24 on a stand-alone basis, reflecting a 6% Y-o-Y growth and 40% sequentially. The FY '24 on a stand-alone basis, our revenue stood at ₹ 277 crores, lower by 2% from the previous year. Stand-alone EBITDA for FY '24 stood at ₹ 103 crores, margins in FY '24 was impacted on account of a change in the product mix, one-off expenses of ₹ 2.8 crores in Q1 FY '24 related to the due diligence of the potential acquisition that did not materialize and ₹ 3.7 crores on account of provisions on inventories.

Adjusted for these one-off expenses, our EBITDA stood at ₹ 110 crores with margins at 40%. Additionally, our margins were affected by the initial costs of our upcoming facilities in Panchla, which were expected to start generating revenues in FY '25. Regarding our consolidated

performance, if we include only the stand-alone India business and the Nerbe business, our revenue stood at ₹ 296 crores and EBITDA of ₹ 105 crores.

Going forward, our consolidated margins might appear differently due to the inclusion of Nerbe, which is currently a trading entity with lower margins compared to our India manufacturing business. However, we are actively working on leveraging synergies and enhancing cross-selling opportunities through Nerbe's established distribution network. This strategy is aimed at boosting our revenues and consequently, increasing our profitability through efficiencies and operating leverage.

An update on Capex. Firstly, on Panchla. In Panchla, we are using cell culture products, a new segment for us while also expanding capacities for existing products. As explained earlier, the civil construction of the site is complete and the first clean room is ready and the other clean rooms are under completion. Clearly, the orders are being delivered and we are on track to have the facility ready. Initial production for commercial sale is expected to commence in Q3 FY '25.

In our Amta plant, the MoU has been signed with the Board of Radiation and Isotope Technology. Once the radiation plant is ready, we'll be shifting part of our standardization requirement in this facility reducing our reliance on a single vendor. Furthermore, construction is progressing for our single warehouse operations aimed at streamlining our inventory management and operation processes to enhance efficiency. We are on track for the completion of business facility and this should be up and running by Q3 FY '25 as well.

Before passing the call to Santosh, I want to acknowledge the industry's current challenges due to the external factors. However, we remain confident in maintaining excellence. We look forward to the opportunities and challenges ahead as Tarsons enters in new phase of growth. The acquisition of Nerbe marks a significant milestone, opening new avenues for growth and reaffirming our dedication to expanding in the global labware market.

With this, I would like to hand over the call to Mr. Santosh Agarwal for his comments on the financial highlights.

Santosh Agarwal:

Good afternoon, everyone, and a very warm welcome to our Q4 FY '24 earning call. On the revenue front, the stand-alone revenue from operations for Q4 FY '24 stood at ₹ 87 crores, which is highest ever quarterly revenue as compared to ₹ 82 crores in Q4 FY '23, a growth of 6%. On Q-o-Q basis, our revenue growth was 40%.

Stand-alone revenue from our business for FY '24 stood at ₹ 277 crores as compared to ₹ 283 crores in FY '23, a degrowth of 2%. Our consolidated revenue from operations for Q4 FY '24 stood at ₹ 106 crores and for FY '24, it stood at ₹ 296 crores. Revenue from Nerbe for Q4 FY '24 was ₹ 19 crores, which has been consolidated from 1st of January 2024. For Q4 FY '24, revenue from export stood at ₹ 28 crores and domestic at ₹ 59 crores.

For FY '24, revenue from export stood at ₹ 83 crores and domestic at ₹ 194 crores. For FY '24, on stand-alone basis, export sales contributed around 30% and domestic sales contributed around

70%. With respect to EBITDA, our standalone EBITDA for Q4 FY '24 stood at ₹ 34 crores as against ₹ 39 crores in Q4 FY '23. Our stand-alone EBITDA for FY '24 stood at ₹ 103 crores as against ₹ 130 crores in FY '23. EBITDA margin for Q4 FY '24 stood at 39.1%. Margins were partially impacted on account of change in product mix.

As a prudent practices and in line with the recommendation of auditors, we have taken a onetime provision of ₹ 3.7 crores of inventories in Q4 FY '24. Exclusive this onetime provision, our adjusted EBITDA for Q4 FY '24 stood at ₹ 38 crores as compared to ₹ 39 crores in Q4 FY '23. Our adjusted EBITDA for FY '24 stood at ₹ 110 crores, adjusted for ₹ 2.8 crores in Q1 FY '24 on account of due diligence for a potential acquisition, which did not materialize and provision of ₹ 3.7 crores as mentioned earlier.

With respect to PAT, standalone profit after tax for Q4 FY '24 was ₹ 19 crores with PAT margin of 22%. Profit after tax for FY '24 was ₹ 51 crores with PAT margin of 18.5%. With respect to Nerbe financials, the company has clocked quarterly revenue of ₹ 19 crores in Q4 FY '24. On the PBT front, the company reported a profit of ₹ 1 crore.

Lastly, we would like to highlight that despite our profits have decreased for FY '24, we have been able to increase our cash flow from operation. Our cash flow from operations on a stand-alone basis stood at ₹ 105 crores as compared to ₹ 76 crores in FY '23.

With this, I would like to open the floor for Q&A.

Moderator: We'll take the first question from the line of Ashutosh Parashar from Mirabilis Investment Trust.

Ashutosh Parashar: Sir, the first question is on the sequential recovery that you have seen on the standalone business in both domestic as well as the export market.

Moderator: Parashar, I'm sorry to interrupt. Can you use your handset mode, please?

Ashutosh Parashar: Yes, is it better?

Moderator: Yes, please go ahead.

Ashutosh Parashar: Yes. So sir, first question is on the sequential recovery that you have seen in both domestic as well as export markets. So sir, if you could please highlight, which segments have led to this recovery? And do we see this trend as sustainable in the coming quarters? And second question is on FY '23 numbers in euros that the sales that we did. And the earlier EBITDA margin trajectory is on your filings, it was around 30% to 40%. But this quarter, the margin was down. So what has led to this drop? That would be it.

Santosh Agarwal: Sir, your voice is not properly audible. We heard your first question, but we have not heard the second question. So if you want me to give the answer the first question, what are the industries, which kind of growth in this quarter.

Rohan Sehgal: If you could repeat your second question as well, we could answer that as well.

Ashutosh Parashar: Yes. So second question, sir, on Nerbe. So this quarter, it seems to have been a revenue of ₹ 19 crores with EBITDA margin of 10.5%. So based on your filing earlier it used to do margins of around 30% to 40%. So what has led to this drop in margins? And how do you see this trending going forward?

Rohan Sehgal: So the industry has -- as I had mentioned earlier as well, the industry has started showing glimpses of rebound and moving and getting gradually better. So we see the sequential growth. We must also remember that historically, the fourth quarter always tends to be the strongest quarter in Tarsons, in India as well as globally. And this year was no different. We performed extremely well in Q4 and performed to our expectations. Sequentially, I think the revenue trends would follow like how they have followed historically. Q1 is always the lowest quarter.

Q2 or Q3 are similar quarters and Q4 is significantly a stronger quarter as compared to the other 3 quarters. So I don't see FY '25 being any different to that. But we see an improvement in the industry. We see a better output as the inventory levels across the industry are getting lower, both in India as well as internationally. I think in terms of the customer base, I think the private sector sees a lot of gains in India. There is a lot of private investment in India in biotech and biotechnology. A lot of new infrastructure, new investments coming up and suppliers to the biotech industry like Tarsons stand to benefit from that.

On your second question on Nerbe, I think, the margins for Nerbe what you see in FY 2020 and 2021 was an anomaly. It was a onetime margin because they had a lot of one-off revenues and contracts with public and private companies in Germany to provide products for COVID testing. Such businesses and such contracts do not exist anymore as there is no more testing in COVID. And Nerbe being a company, which actually brings in products in their own brand name and sells to the end customers in the private and public sector in Germany and all across EU, cannot have a margin of about 30% to 35% sustainably by importing and selling these products.

But with our synergies, our manufacturing synergies as well as their customer base relationships and the distribution strength in the EU, we look to leverage both revenues as well as the bottom line as much as we can.

Ashutosh Parashar: Got it, sir. So one more question, if I could ask. So that would be on the domestic diagnostics segment. So last few quarters, we have seen the competitive pressure internally in the diagnostics segment are breaking a bit. So the leaders have started showing good growth again. So how has that segment been fared for you? And how do you see it panning out in the next few quarters, the domestic diagnostics piece?

Rohan Sehgal: I assume that most of the questions are aimed at the diagnostic testing industry because most of the listed entities are in the diagnostic testing industry. So our revenues have stabilized and are similar to pre-COVID levels. Of course, they are not at the COVID levels because there is no one-off requirements for COVID testing plastics. But apart from diagnostic testing companies, there is a huge demand coming in from diagnostic equipment manufacturers and diagnostic kit

manufacturing companies in India, more and more innovative companies are coming up. And we see opportunities as being a preferred supplier for such companies.

Moderator: We'll take our next question from the line of Jaiveer Shekhawat from Ambit Capital Ltd.

Jaiveer Shekhawat: Congrats team on an encouraging growth in your domestic business. So first, just to understand that, I mean, given that we have seen good Y-o-Y growth in your stand-alone business after many quarters of decline or say a flat performance. So one, could you help us understand how the demand environment in FY '25 year-to-date shaping out? And what kind of growth expectations you have for the stand-alone business in the coming year?

Rohan Sehgal: Sure. So we won't be able to give you an expectation on growth because we don't to be giving any sort of forecast or any sort of like a growth number. The market, not only from an internal perspective, the labware market is still on a recovery phase. Things are better than before, as I said earlier. The inventory levels are getting lower. But there are a lot of external factors as well. I think the geopolitical situation is very unstable at this point of time globally. And apart from the geopolitical situation, logistics and supply chain have been disrupted and do not have the same stability and smoothness what we saw in the pre-COVID levels.

So as soon as we achieve certain stability, there are certain events, which come up internationally, which slow things down. So shipments, incoming shipments, outgoing shipments, political tensions all across the world, all these contribute significantly to the expansion and growth in the international market. So it is not the most stable period at this point of time, but we try to carve out new products and foster new relationships, grow our existing relationships and try and do the best what we can in FY '25, but the situation seems much better in terms of the demand level as well as in terms of the reduction in inventory levels.

Jaiveer Shekhawat: Sure. And do you want to call out why your domestic business has seen only a 3% growth while your exports business has done very well in mid-teens.

Rohan Sehgal: So as I mentioned earlier as well, the international business because of the current scenario, we could have a situation that we do not show a good growth in the certain quarter and show phenomenal growth in another quarter. It is based on shipments moving. So as per accounting policies, once the shipment bill is generated, that is the only time we can record that shipment as revenue in our books.

So we could have shipments worth \$1 million or \$2 million lying in our warehouse on the last week of a certain quarter, which moved on the first week of the next quarter and the other quarter look really well. So we should consider domestic on a quarterly basis because the revenue happens on an everyday basis, but we should consider international business on a more longer period like an international basis because it's very difficult to have activation quarter-over-quarter because of supply chain issues.

Santosh Agarwal: And just to add on that, we are still facing a lot of container issues. Segments are lying ready for months and months and we are taking the containers and once the container lines up then all

shipments are going. It is very difficult to see maybe kind of actual numbers of revenue on the basis of shipment on a quarter-to-quarter basis, it is always better to see the export movement on a longer term basis.

Jaiveer Shekhawat: Sure. That's helpful. And on the acquisition, we are just trying to understand the opportunity here. So given that revenues have also declined almost 50% versus the last year, if you were to annualize the current quarterly sales. So how are you thinking about this business, let's say, from a mid to long-term perspective and even more granularity in terms of where the margins could possibly settle on a steady-state basis? I think you've talked about these cross-selling opportunities and the synergies. So could you also provide more light on that? And what period will it take to sort of start reflecting in the margin and growth?

Rohan Sehgal: So when we acquired the company in Germany, Nerbe, we were very, very clear about the ability to generate revenues and what was a steady state revenue for Nerbe, looking at 2019 and 2022 and beyond revenues. 2020 and '21 were one-off revenues, and very different from the revenues we had generated during COVID. There were revenues of products, which could not be replicated or repeated. And hence, all the valuation and the acquisition was done based on numbers, which seem realistic today to us. I think the Nerbe business at current levels, we look to grow it on a year-over-year basis and these levels are much stronger than the pre-COVID numbers of Nerbe. But if we consider the numbers, which we saw in the 2 years of COVID in their financial year January to December 2020-21. That would not be accurate.

Jaiveer Shekhawat: Sure. But any time line in mind when you want to reach at least a steady-state EBITDA margin because I'm sure the 10-12% kind of a margin that you reported this quarter, I don't think that's a margin that you will do on a steady state...

Rohan Sehgal: Absolutely. I think as the inventory levels come down and as they are able to sustain the demand levels back to the standard levels. At this point of time, the European economy is not in the strongest level, the inventory levels are still there, and being a distributor of such products, I do not see, as I mentioned in one of the earlier answers as well that 30%, 35% margins are never sustainable. They were never there for a company like this pre-COVID and -- or in the entire history of the 35, 40 years, it was just available for the 1 or 2 years because we had special contracts for COVID testing. So I think mid-double-digit EBITDA margin would be a sustainable margin for Nerbe moving forward.

Santosh Agarwal: And just to add, if you see the Nerbe financial results for last 3 or 4 years, they always maintained a gross margin of more than 50%. Pre-COVID always 50%, more than 50%. During the COVID it was almost more than 50%. And after COVID also, it is also more than 50%. It's above the sales volume, which came during the COVID time. EUR 30 million kind of turnover during the COVID time, which is not there. Once they increase their sales, the EBITDA and margin were improved.

- Jaiveer Shekhawat:** Sure. And my last question is on the inventory provision. So could you provide more light on the reason behind that? And also you're sitting on almost ₹ 130 crores of inventory. So are there any risk of provisioning or write-offs there?
- Santosh Agarwal:** So you're talking -- your question is regarding the inventory, right?
- Jaiveer Shekhawat:** That's right. The inventory provision so why have we taken that?
- Santosh Agarwal:** The inventory provision is more like a temporary provision, all that stocks are in good condition. These are old inventory. And on the request of auditors, we thought that we can do this provision. But once the sales will come, as we utilize those raw materials, I think the reversal will happen.
- Jaiveer Shekhawat:** So especially in terms of the shelf life or the sterilization requirements, do these not change with the life of the inventory and is there more risk when the inventory turns 2 or 3 years?
- Santosh Agarwal:** All the materials and finished goods are in good conditions because we have not done the write-offs. We have done the -- we have only created a provision. We could have done write-off only for those inventories for which sterilization of 5 year will over, right? But that is not the case in our case.
- Moderator:** Next question is from the line of Jasdeep Waliya from Clockvine Capital.
- Jasdeep Waliya:** Sir, could you give us the audited numbers of Nerbe for CY '23? You said last time that by now they would come.
- Santosh Agarwal:** We already shared in our investor presentation, the audited numbers are about -- they have reported approximately EUR 3 million in last 3 months, right? And if you talk about the last year, calendar year 2023, they have reported about EUR 8 million approximately.
- Jasdeep Waliya:** EUR 8 million?
- Santosh Agarwal:** Yes.
- Jasdeep Waliya:** And EBITDA?
- Santosh Agarwal:** The EBITDA margin was about EUR 178,000 approx.
- Jasdeep Waliya:** 178,000?
- Santosh Agarwal:** Yes. Approx.
- Jasdeep Waliya:** Okay. Got it. Got it. And this is a fair reflection of the business, sir, last year CY '23?
- Rohan Sehgal:** No, it wasn't a fair reflection. It's a period of stress for the business because we were going through high levels of inventory and a lot of inventory rationalization was done. At that time, a lot of inventories were sold at lower prices to get rid of excess inventories. I think there is a lot of scope of improvement from those numbers. And as I mentioned earlier, a mid-double-digit

EBITDA of around 14% to 15% would be a sustainable EBITDA for Nerbe going forward as we grow the business and the revenues.

Jasdeep Waliya: Got it. So at last quarter's run rate of business, can you achieve double-digit margins in this year, FY 25?

Rohan Sehgal: No, I think it would be -- it would slowly scale up and our goal is to reach 14% to 15% EBITDA for Nerbe moving forward as we grow the revenues. So at this point of time, I would not know, almost 2.5 quarters left because if you look at their financial year between January to December, that we could achieve that number because there's still a lot of inventory rationalization going there. They're still recovering from huge inventories in their system. But moving forward, as we integrate more of our products into the mix and as we have more Tarsons' manufactured products from India, which Nerbe begins to sell, I think we'll be able to achieve that.

Jasdeep Waliya: And when do you think that you can start selling products manufactured in India? Have you set a target for that?

Rohan Sehgal: We cannot set a final target, but we start the process from this quarter and slowly scale up. And I think there would be a period of time before we can add all the products, Nerbe has more than 2,000 SKUs. So it cannot be -- it's not the product group, which we can just turn around and say that we've started supplying to Nerbe. So as we keep scaling up the SKUs, it would be a process based on how the market is reacting, how the market is growing? What sort of inventories they have for the current -- from the current supplies and so on.

Jasdeep Waliya: Got it, sir. Sir, my next question is, sir, what is the percentage of your sales from government? What is it as a percentage of sales in the domestic business?

Rohan Sehgal: So you mean the sale what we have to the government from our domestic entity or from Nerbe, I'm not very sure.

Jasdeep Waliya: From domestic entity. As a percentage of stand-alone business, what is the sales to...

Rohan Sehgal: We assume around 1/5 of our domestic revenue. This is what we assume because we don't sell directly to the government, we sell to distributors and distributors sell to final customers. So 20% of our domestic portion of our total revenue.

Jasdeep Waliya: Got it. Got it. Sir, my understanding is that...

Moderator: Mr. Walia, I request you to join back the queue please, as we have other participants waiting. We'll take our next question from the line of Rishabh Gang from Sancheti Family Office.

Rishabh Gang: I want to understand more on the revenue side. The revenue growth, let's assume these geopolitical things get over, then what can be the reason for not growing, right? Would it be on supply constraint or on the demand constraints? A bit on that, sir. And do we have any single customers contributing more than 10% of the group's revenue? And majority of the sales, are they order based or we plan the supply by demand?

- Rohan Sehgal:** Yes. So I think the reason for -- it is both demand-based as well as external factors are also a reason. There is a -- there was a demand constraint, right, with a lot of inventory in the system, both internationally as well as in India, and the global supply chain issues and geopolitical tensions did not help this demand situation as it's trying to recover, it is creating a little bit more of an issue. And I think as -- once these issues clear out, demand is still getting better every day. The inventory levels are coming lower and lower and it's a good position and a good time for us to start growing quarter-on-quarter again. And what was your other question?
- Rishabh Gang:** Yes. So on this side, on the demand, on supply chain things, do you think because of the freight issues and all, companies are actually sourcing from their nearby countries, such as in Europe? Is it something happening?
- Rohan Sehgal:** So Europe and U.S. and India, Europe, U.S., Mexico and China, I think these are the 5 major hubs of producing products, which we manufacture. And it's not -- people continue to import and people who buy from Europe because there are successful European companies, there are successful American companies, which continue to produce and continue to grow the revenues. So there is a market for their product, there's a market for overseas manufacturers like ourselves in India as well as Chinese manufacturers. So that demand generally doesn't shift too much because there are different segments, different customer bases, different price points. But at this point of time, it's yet to be seen whether it is a long-term problem and it continues to stay or it is something, which can be recovered.
- Moderator:** I request you to join back the queue please, as we have other participants waiting. We'll take our next question from the line of Abdulkader Puranwala from ICICI Securities.
- Abdulkader Puranwala:** Sir, just looking at your stand-alone business, so I understand on a consol basis Nerbe would impact your margins. But on the stand-alone side, sir, if you could provide some guidance as to -- what is the kind of revenue growth outlook you're thinking when you're talking about the industry scenario improving? And on the margin side, I mean, should we -- we have the 33%, 35% range where we have been on a stand-alone basis at least. I mean, some color on that would be helpful.
- Rohan Sehgal:** Yes, we won't be providing any guidance as such. But I can say that margins are depending on the gross as well as the EBITDA side, so I think we are confident that if we can achieve sustainable growth over the years, we will be able to maintain our costs and keep margins around early 40s or 40 percentage level on EBITDA. And based on current scenarios and based on the current competitive environment and if we can start growing once again like how we have over the last 10 to 15 years pre-COVID era, if we can manage those kinds of growth now moving forward, I think, we'll be able to sustain the margins really well.
- Abdulkader Puranwala:** Sure, sure. That's helpful. And sir, secondly, on the 2 plants, what would be commercializing in this fiscal? So sir, could you share what would be the operating cost and -- both on above EBITDA as well as on the depreciation, what you guys would be booking starting in the second half once it gets commercialized?

- Santosh Agarwal:** Sir, can you please repeat your question because I have not heard your question properly.
- Abdulkader Puranwala:** Sure, sir. Sir, my question was regarding the Panchla and Amta plant, which is likely to get commercialized, say, in the second half of fiscal '25. So what would be the OpEx of the 2 plants initially?
- Santosh Agarwal:** What would be the -- can you repeat again?
- Abdulkader Puranwala:** Yes, the operating cost I'm talking about, what you would be recording...
- Santosh Agarwal:** So sir, operating cost will depend on the production level. Most of the operating costs are variable in nature. So only some costs are fixed in nature, but remaining costs are variable in nature. Electricity cost will increase on the basis of production, but there are some expenses like security expenses and manpower expenses, which are fixed in nature. So it is very difficult to give any kind of exact idea of what will be the fixed cost and what will be the operating cost. It will depend on the -- when the factory will be operated.
- Moderator:** Mr. Puranwala, I request you to join back the queue, please. We'll take our next question from the line of Ranodeep Sen from MAS Capital.
- Ranodeep Sen:** I think the management had hinted towards consolidation in some of earlier calls, where some of the smaller players kind of exiting this market. I just wanted to understand...
- Moderator:** Mr. Sen, may I request you to use your handset mode, please.
- Ranodeep Sen:** Yes. I was mentioning the management had guided in the earlier calls that we might be looking at consolidation in the industry with some of the smaller players exiting the market. I wanted to understand have we started seeing development?
- Rohan Sehgal:** No, we've not given any such guidance that this would happen, but we believe that there were a lot of emergence of a lot of new players during the 2 or 3 years of COVID, as the existing players did not have enough capacity to meet the demand at that point of time. But we believe that moving forward in the future as the competitive intensity of the industry grows and as the brands, which were existing for many, many decades continue to gain more and more prominence, it will be difficult for smaller and unorganized and unknown newer players to profitably sustain in the market. But we did not give any guidance per se that there would be an exit.
- Ranodeep Sen:** Sure, sure. My next question, I wanted to understand the thought process of the management with all the 5 facilities in West Bengal and given in an era where we live, and in the repercussions of climate change and impact, is it not too much of a concentration risk by having all the 5 facilities in 1 state? And is there any thought process towards diversification of some of the future facilities in India. I understand in the export market, we've already diversified with the acquisition of Nerbe. But any thought process towards diversification in India?
- Rohan Sehgal:** No, I don't see climate change as a reason to move out of West Bengal. I think the climate currently is showing a lot of extreme degrees all over the country, extreme cold, extreme heat,

extreme rain. So I think West Bengal is no different. And the problem with our industry is that we manufacture 2,500, 3,000 SKUs to achieve a revenue of close to ₹ 300 crores in India.

So if you look at some of the larger commoditized industries, they will have much lesser revenues -- much less SKUs and thousands of crores of revenue and it is a consumption market, which is directly related to the population. So you need to be closer to customers and you can have multiple facilities. But in terms of our technical know-how and the teams, what we have and our operational efficiency, we are very, very comfortable and successful being in West Bengal, and we'll continue to expand here if the business permits.

Moderator: Mr. Sen, does that answer your question? Mr. Sen, we are unable to hear you. Since there is no response, we'll move on to the next question from the line of Pradeep Rawat from Yogya Capital.

Pradeep Rawat: My first question is regarding our Capex. So what is the planned Capex like in amount? And how much have you incurred till now? And what could be the potential peak revenue from the Capex?

Santosh Agarwal: So we already communicated earlier that we are running with a Capex of about ₹ 600 crores. And out of that we already incurred, in this year, about ₹ 180 crores. And if you talk about the total Capex, we already incurred about ₹ 475 crores out of that, so that's the status currently. And the remaining amount whatever is pending will be incurred in the next 7 to 8 months.

Pradeep Rawat: Yes. And the peak revenue potential from the Capex?

Santosh Agarwal: So the revenue potential from the Capex, it depends on the kind of different kind of products. If we talk about Panchla, Panchla at a peak capacity can generate a revenue of about ₹ 400 crores, right, at a peak capacity. It will not come immediately. It will come in a period of maybe 3 to 5 year time line. And regarding the Amta facility, Amta facility will not give any kind of revenue addition. Amta facility is more like a support center. We are building a warehouse and we are building a radiation plant that will not add any kind of revenue.

Pradeep Rawat: Yes. And what is the current utilization at our current facilities?

Rohan Sehgal: I don't have a calculated number because there's no way to actually make a correct analysis of calculation, but approximately about 75% to 80%.

Moderator: We'll take the next question from the line of Sandeep Abhange from LKP Securities.

Sandeep Abhange: Yes. Can you hear me now?

Moderator: Yes, please go ahead.

Sandeep Abhange: Yes. Just wanted to know how is the customer engagement going on with your export plans as of now? Like throughout FY '24, how do you assess the demand scenario in the overall export market; majorly, in some of your major countries like Middle East or U.S. and Europe? So how

is the customer engagement side going on in the export market? If you can throw some light on that?

Rohan Sehgal:

Yes. So we engage with final customers and end users in trade shows and exhibitions, what we participate in about 4 to 6 international exhibitions in a year and that is a platform for us to engage with both end customers as well as distribution partners. But commercially, we transact only with distribution partners and not with final customers, and we do not have enough people, enough sales teams outside India to work on a customer level, like the way we can work in India because we have regional managers. We basically meet our distributors and conduct business through them. And that is how we engage with our point of contact for international business.

Sandeep Abhange:

Okay. Okay. And my next question was on the side of the split under branded and ODM sales. So as we have seen in this year, if you compare, the branded and ODM split has like mainly skewed towards ODM sales. So do we expect this ODM kind of increase to like further from here, like from like 60%, 65% to 70%, 75%? Or you are expecting it the branded sales to improve in coming years, like in FY '25 or FY '26? How is the split you're seeing?

Rohan Sehgal:

See, the ODM business, again, is project and contract-based business. So if we win some contracts, I think the ratio would look very, very different, and it would go more heavily in favor of ODM. And I think if the global geopolitical scenario improves and the supply chains improve and people are more open to develop business to look at new opportunities, to look at new partnerships, I think, there would be an opportunity for us to grow our branded business.

Moderator:

We'll take our next question from the line of Jatin Chawla from RTL Investments.

Jatin Chawla:

My question is that, so overall, at a global level, how -- what sort of decline did we see in the labware industry in CY '23? And coming from the perspective that you were so small in terms of revenues at a global scale. Why is it that we are not able to still grow with gaining market share. Also in that same context, I wanted to understand what is your right to win in the export market? And with the Nerbe acquisition, has that right to win changed at all?

Rohan Sehgal:

Correct. So there's no published data as to what is the level of degrowth in FY '23 or in some cases, FY '22 because the financial year internationally is from Jan to December. I believe if you look at the mean average data between companies all over the world, some of the large companies, I think, it is between 18% to 20% of degrowth in the first year and then another 8% to 10% of degrowth in the second year.

So the second year was a lower degrowth in the first year because things are always improving as we move forward. But cumulatively, it was, I think, 18% to 20% degrowth in the first year and then 8% to 10% in the second year.

And yes, I think being a smaller company, being a more efficient company, having a very strong brand in India and having very close customer relationships and being very customer-centric in India, we've been able to outperform the market. And while most of the companies degrow at

these levels, we can maintain our degrowth of fraction of these levels, hence outperforming the industry.

Jatin Chawla:

Okay. And the second question on your right to win on the exports and does that change with Nerbe?

Rohan Sehgal:

I think the right to win in exports is, it's a pretty much straightforward thing. The U.S. and European legacy manufacturers, it's not getting easier and cheaper. The manufacture for them is getting more and more expensive as inflation grows, cost of production, cost of hiring people, cost of running operations that's more and more expensive, unaffordable. Companies in India and China, there are lots of them, but everybody cannot deliver the quality and reliability and consistency, just a few, far and few companies and they have a good opportunity to take a lot of business from these established legacy players in U.S. and Europe.

And we come out -- Tarsons is one of those few players from India and China, which have the opportunity to do that. And I think on top of that, if we just narrowed down to India, I think, India has got a special advantage of growing the same time between -- in this actual political scenario, there's a lot of China Plus One movement and lot of China Plus One noise moving around in the European and U.S. distribution and customer service.

So people are not willing to shift from China to India completely, but people are willing to derisk and removing all the eggs just from China and pass on some business to India, so that's very, very positive for India. So for business, I think a very, very promising kind of a road map for the international business for a company like us.

And with Nerbe, I think, we're just trying to ensure that we have a platform in Europe because we build great products, and we have a great platform in India, but we do not have a platform in Europe. So we built that platform in India from scratch over 4 decades. I think Nerbe fast forwards our ability to build such a platform in Europe and also, it gives us an opportunity to build a platform, which an Indian company would find very difficult to do organically in Europe. So by getting the Nerbe brand, getting the Nerbe legacy of more than 40 years helps us fast track that and fast track our vision to be a prominent player in Europe in the coming years or decades.

Moderator:

We'll take the next question from the line of Himangi Tiwari, an individual investor.

Himangi Tiwari:

Like you said, the Amta facility does not add revenue, so how much cost does you save? Like what can be the incremental EBITDA and gross margins due to the Amta facility?

Rohan Sehgal:

So the cost of Amta would -- there would not be a lot of incremental costs. We would be streamlining our logistics. At this point, logistics is scattered because we have 5 smaller facilities, and each facility undergoes its own logistics in order to conduct business in India as well as internationally, we use too many logistics in one place. We'll be having a much larger stocking area.

We'll be having much more efficient logistics, have be able to move large volumes of containers to the tune of 5x, 6x the volume of what we currently do in the international business and containers. So it's more of a consolidation and it's more of being able to drive faster growth into the domestic as well as the international business.

I think we'll incur some costs in the radiation plant because currently, we've not fund up radiation. But I think those costs will be offset by saving a lot of costs, which we currently incur by outsourcing our radiation to a third-party contractor.

Himangi Tiwari: Okay. So could you give some, like there are the numbers for cost savings or payback period or something?

Santosh Agarwal: So in a nutshell, the cash operating expenses will not change, ma'am, because currently, whatever we are incurring in the cash operating segment that will only move to Amta segment, right? Some depreciation will only add on, right? But it is very difficult to give the exact number, what will be the impact in the short run and what will be impact in the long run. It depends on what kind of infrastructure, if we spend there. If we keep 50 workers there, then the operation cost will be different, if we keep 100 workers, depends on the volume.

Moderator: Ms. Tiwari, does that answer your question?

Himangi Tiwari: Yes.

Moderator: We'll take our next question from the line of Vedant Mehta from QRC Investment Advisors.

Vedant Mehta: I'd like to ask about the stickiness of your customers and -- in both existing products as well as cell culture? And how difficult it would be to break in to the cell culture market based on this?

Rohan Sehgal: I think the cell culture is a very sticky market where customers are very, very concerned about the research. It's a long period of growing cells and cheaper plastics, which saves some costs. Could turn out to be very, very expensive if the research work doesn't go as planned. But I think we've built enough goodwill in the market in India to be able to fast track the stickiness. And I'm not saying that we'll own cell culture products and we will be the preferred choice of supplier in India. But I think Tarsons would find it easier to break into the cell culture market as compared to any other player who would want to do this in India.

I think the Indian scientific fraternity has been using cell culture plastics from top quality brands from Europe and U.S. over the last 4 decades, 5 decades. But with the kind of R&D and the kind of innovation we have put in over the last 2.5, 3 years to build the cell culture line, we are very confident of very good success in India and we are confident of penetrating the international markets for these products as well.

Moderator: We'll take our next question from the line of Jasdeep Waliya from Clockvine Capital.

Jasdeep Waliya: Sir, my question is with respect to the data that you gave me earlier, that 20% of sales are from the government-linked entities in India.

- Rohan Sehgal:** 20% of our domestic sales.
- Jasdeep Waliya:** Correct. 20% of your domestic sales. So my understanding is that previously, this plastic labware used to be sold on rate contracts to all these government entities. And now as the mandate government is moving all the procurement to GeM platform where the L1 bidder takes the contract. So do you see any pressure on your business, which you get from the government, pressure on margins?
- Rohan Sehgal:** No. see, the business is competitive, and it always was competitive. It always continues to be competitive. In the past, when the government had rate contracts with companies, a rate contract is, in very simple terms, a list of products with the contractual price. So at that time, there was also the pressure because it was not us having an exclusive rate contract with the government. There were various other companies having rate contracts with their products and their prices.
- So it was also totally competitive. The only thing what has changed with general, this has become an online platform. But at the same time, there are parameters, specifications and other things, so that you can be a registered vendor and be able to quote for it. But the process of doing business has changed, but the rate contract business, which used to be there earlier was as competitive because the government could have rate contract with multiple companies with the same product lines.
- Jasdeep Waliya:** Got it, sir. Got it. Sir, can I ask 1 more question?
- Rohan Sehgal:** Sure.
- Jasdeep Waliya:** Sir, in the last quarter, you sounded much more optimistic on the domestic business. And you said that from, let's say, for a third quarter -- last quarter onwards, you said that you would -- the company would now grow on a Y-o-Y basis and the trends would strengthen. Do you still maintain that guidance for the domestic business?
- Rohan Sehgal:** Yes. I believe that the situation is improving and the growth should be there. You cannot look at growth only sequentially because as I mentioned, Q1, Q2, Q3 are very similar to each other, but Q4 is always an outlier if you look at the ratio of our revenues. So there would always be a scenario where very rarely, if it ever happens, it's never happened in the history of our company that Q1 has been better than Q4. So that is the way the industry is. But overall, we are very, very positive because we feel that the lowest is behind us and whatever we see is higher and getting better.
- Santosh Agarwal:** And just to add, we don't give any outlook on the domestic numbers. But we always believe that historical numbers are the most trusted numbers. And if you see our domestic numbers have increased from ₹ 46 crores in Q3 FY '24 to ₹ 59 crores, and that's a big jump. And if you see the number of Q4 FY '23 also, we have also grown by 2%.
- Jasdeep Waliya:** Got it, sir. Sir, pre-COVID industry used to grow at around 12%, 13% CAGR. So would the industry come back to that kind of growth rate in FY '25?



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- Santosh Agarwal:** It is very difficult for us to give industry growth outlook.
- Jasdeep Waliya:** Let me put my question in other manner. Would Tarsons return to industry level growth in FY '25?
- Santosh Agarwal:** We cannot give any kind of outlook, to be very honest, right? We only say that we are working really hard and we are hopeful for the better number.
- Rohan Sehgal:** So the thing is that as we -- as the industry is rebounding, it's very, very difficult to give accurate numbers and percentage points, whether 13%, 12%, 15% at this point of time. When the industry is in a stable mode and growing year-over-year, such predictions become much easier. At this point of time, the only thing we can say is that demand looks much better than before and the inventory levels look much lower than before.
- Moderator:** Ladies and gentlemen, we'll take that as last question for today. I now hand the conference over to management for closing comments. Over to you.
- Rohan Sehgal:** I take this opportunity to thank everyone for joining the call. We will keep updating the investor community on a regular basis for incremental updates on your Company. I hope we have been able to address all your queries. For any further information, kindly get in touch with us or SGA, our Investor Relations advisors. Thank you once again.
- Moderator:** Thank you. On behalf of AMBIT Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.