

Evaluating Sanstar Ltd IPO opportunity; Should you invest?

Mandar Wagh / 16-Jul, 2024 / Categories: Trending, IPO, IPO Analysis

About the issue

Sanstar Ltd is set to launch its initial public offering (IPO) for equity shares, each with a face value of Rs 2. The IPO price range is set between Rs 90 and Rs 95 per equity share, resulting in a total issue size of Rs 510.15 crore at the upper price band.

The IPO is scheduled to commence on July 19, 2024, and will conclude on July 23, 2024. The market lot size for the IPO is 150 shares, with the option to apply for multiples of this lot. Individual retail investors have the opportunity to apply for a maximum of 14 lots, equivalent to 2,100 shares or a total investment of Rs 1,99,500 assuming the upper price band.



In this analysis, we take a closer look at Sanstar Ltd and present you with the exclusive IPO details.

IPO Details	
IPO Opening Date	July 19, 2024
IPO Closing Date	July 23, 2024
Issue Type	Book Built Issue IPO
Face Value	Rs 2 per equity share
IPO Price	Rs 90 to Rs 95 per equity share
Min Order Quantity	150 shares
Listing At	BSE, NSE
Total Issue	53,700,000 shares of FV Rs 2* (Aggregating up to Rs 510.15 Cr)*
Fresh Issue	41,800,000 shares of FV Rs 2* (Aggregating up to Rs 397.10 Cr)*
Offer for Sale	11,900,000 shares of FV Rs 2* (Aggregating up to Rs 113.05 Cr)*
QIB Shares Offered	50% of the Offer
Retail Shares Offered	35% of the Offer
NII (HNI) Shares Offered	15% of the Offer
*At Upper Price Band	

Objects of the issue

The offer encompasses both the fresh issue and the offer for sale. It's important to note that the company will not accrue any proceeds from the offer for sale. The company plans to allocate the net proceeds raised from the fresh issue for the following purposes:

1. Funding the capital expenditure requirement for the expansion of the Dhule Facility
2. Repayment and/or pre-payment, in part or full, of certain borrowings availed by the company
3. General corporate purposes

Promoter holding

Gouthamchand Sohanlal Chowdhary, Sambhav Gautam Chowdhary, and Shreyans Gautam Chowdhary are the promoters of the company. The promoters and promoter group currently hold a pre-issue shareholding stake of 99.77 per cent in the company.

Company profile

The company is a leading manufacturer of plant-based speciality products and ingredient solutions in India, catering to food, animal nutrition, and other industrial sectors. According to Frost & Sullivan, with an installed capacity of 3,63,000 tons per annum, it ranks as the fifth largest manufacturer of maize-based speciality products and ingredient solutions in India.

The company's product portfolio includes liquid glucose, dried glucose solids, maltodextrin powder, dextrose monohydrate, native maize starches, modified maize starches, and co-products such as germs, gluten, fibre, and enriched protein, among others.

Its speciality products and ingredient solutions enhance taste, texture, and nutritional value, as well as functionality in various applications. These include:

1. Food products, where they serve as ingredients, thickening agents, stabilizers, sweeteners, emulsifiers, and additives.
2. Animal nutrition products, where they act as nutritional ingredients.
3. Other industrial products.

The company's two manufacturing facilities, covering a cumulative area of 10.68 million square feet, are located in Dhule, Maharashtra, and Kutch, Gujarat. In Fiscal 2024, the company exported products to 49 countries across Asia, Africa, the Middle East, the Americas, Europe, and Oceania. Domestically, the company has a strong presence, with its products being sold in 22 states across India.

Rs (in crore)	FY22	FY23	FY24
Revenue	505	1,210	1,082
Profit before tax (PBT)	22	55	90
Net Profit	16	42	67

Despite a decline in revenue for FY24 compared to FY23, the company has consistently achieved growth in both its top line and bottom line over the past few years. In FY24, net profit saw a stellar year-on-year growth of 60 per cent compared to FY23.

Its profit figures could have been even stronger if not for substantial interest costs. The company plans to use a significant portion of the net proceeds from its IPO for loan repayment, which will help reduce its debt and subsequently improve its bottom line.

Additionally, management stated that margins are expected to improve further due to continued stable demand and benefits from newly commissioned solar and gas power projects.

Valuation and outlook

Company Name	P/E	P/B	RoE (%)
Sanstar Ltd	20	6	28
Listed Peers			
Gujarat Ambuja Exports Ltd	18	2	15
Gulshan Polyols Ltd	71	2	8
Sukhjit Starch & Chemicals Ltd	15	1	14

The issue is priced with a P/BV ratio of 6.18 times, calculated using its Net Asset Value (NAV) of Rs 15.37 as of March 31, 2024. When we calculate the PE ratio for the company by considering the FY24 earnings relative to the fully diluted paid-up equity capital, the resulting PE ratio stands at 20. Considering both valuation and returns, the company has significantly outperformed its listed peers.

Unlike other similar trade players, Sanstar deals in R&D-driven food products, nutrition and value-added products. This sets it apart from some of the other peers. This is endorsed by the efficient cash conversion cycle (lowest conversion cycle), highest ROE and lowest inventory levels of Sanstar.

The company's strengths include strategically located facilities in the maize production belt, which enables the acquisition of raw materials at competitive prices. Additionally, the company benefits from large land with ample scope for future expansion, automation, sustained demand, and a leading market position. Hence, we recommend investors to subscribe to the issue with a long-term perspective.