

Company Overview

Sanstar Ltd. is one of the major manufacturers of plant-based speciality products and ingredient solutions in India for food, animal nutrition and other industrial applications. The company products include liquid glucose, dried glucose solids, maltodextrin powder, dextrose monohydrate, native maize starches, modified maize starches and co-products like germs, gluten, fiber and enriched protein. Sanstar speciality products and ingredients solutions add taste, texture, nutrients and increased functionality to (i) Foods as ingredients, thickening agents, stabilizers, sweeteners, emulsifiers and additives (in bakery products, confectionery, pasta, soups, ketchup, sauces, creams, deserts, amongst others), (ii) Animal nutrition products as nutritional ingredients and (iii) Other industrial products as disintegrants, excipients, supplements, coating agents, binders, smoothing & flattening agents, finishing agents, among others. The company exported products to 49 countries across Asia, Africa, the Middle East, the Americas, Europe, and Oceania during FY24. It also has footprints across India, with its products sold in 22 states. The company has two manufacturing facilities spread across a cumulative area of 10.68 mn square feet, located at Dhule in Maharashtra and Kutch in Gujarat with an installed capacity of 363,000 tons per annum (1,100 tons per day). Its manufacturing facilities are strategically located in terms of proximity to raw material sources, i.e. maize harvesting belts and seaports of Mundra, Kandla, Hazira and Nhava Sheva, for exports of finished products.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Funding the capital expenditure requirement for expansion of the Dhule facility;
- ⇒ Repayment/Prepayment in part or full, of certain borrowings availed;
- ⇒ General corporate purposes.

Investment Rationale

Major manufacturer of maize-based speciality products and ingredient solutions with a diverse product portfolio

Sanstar is India's fifth largest manufacturer of maize-based speciality products and ingredient solutions. The Director General of Foreign Trade, Government of India, recognized it as a Two Star Export House. A 'two-star export house status holder' shall mean an exporter with an IEC number exceeding the export performance of USD 15 million in the preceding three financial years. The company exported products to 49 countries across Asia, Africa, the Middle East, Europe & Oceania and the Americas during FY24. The company offers a diversified portfolio of speciality products and ingredient solutions, including liquid glucose, dried glucose solids, maltodextrin powder, dextrose monohydrate, native maize starch, modified maize starches and co-products like germs, gluten, fibre and enriched protein. These products find applications in various industries, including food and beverages, pharmaceuticals, animal nutrition, adhesives, textiles, and paper. The company's revenue is driven by its product mix, which adapts to market prices and demand for finished goods. With its diversified product portfolio, established market position, commitment to quality, and large production capacities, Sanstar has built a strong domestic and global market presence. Sanstar's presence in various markets reduces dependence on any single market and minimizes the risk of adverse developments in any market's economic outlook. Furthermore, through experience in the speciality products and ingredient solutions industry, the company has added derivative products to its product portfolio, which is expected to be one of the significant drivers of growth in the future.

Global presence with high entry barriers to aid business performance

Sanstar has a robust global presence with top export destinations, including Malaysia, Vietnam, Kenya, Indonesia, the United Arab Emirates, Nigeria, Sri Lanka, Ghana, and Thailand. The maize-based speciality products and ingredient solutions industry have high entry barriers, which include the high capital costs of building manufacturing facilities, the lead time and expenditure required for R&D and building customer confidence and relationships, the limited availability of raw materials necessary for manufacturing due to alternative applications of the raw materials, a certain level of capacities required for achieving economies of scale, and competition from well-established players. Given the nature of the application of products and the processes involved, the company products are subject to and measured against high-quality standards and product approval systems and specifications. The company has developed relationships with customers over the years, established strategic,

Issue Details

Offer Period	19 th July, 2024 - 23 rd July, 2024
Price Band	Rs. 90 to Rs. 95
Bid Lot	150
Listing	BSE & NSE
Issue Size (no. of shares in mn)	53.7
Issue Size (Rs. in bn)	5.1
Face Value (Rs.)	2

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	Pantomath Capital Advisors Pvt. Ltd.
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Registrar	Link Intime India Pvt. Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoter & Promoter Group	100.0%	70.4%
Public	0.0%	29.6%
Total	100.0	100.0

(Assuming issue subscribed at higher band)

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state-of-the-art manufacturing facilities, and has proven to be a reputable producer with a track record of providing high-quality products. Additionally, the B2B nature of the business creates significant exit barriers for customers as well. The products find application across diverse end industries globally, including food, animal nutrition, and various industrial applications, and are subject to different rules and regulations across geographies. This leads to customers performing rigorous quality checks and tests on products right from the sample sharing stage to the commercial manufacturing stage, which involves time and resources on the part of customers. Given this, the customers generally do not prefer to change suppliers frequently, resulting in the customers' propensity to continue with the same set of suppliers.

Valuation

Sanstar has the fifth largest capacity in the Indian maize-based speciality products and ingredient solutions industry. It is well on its way for an expansion of an additional 1,000 tons per day at the Dhule facility. After the expansion, it is estimated to be the third largest manufacturer of maize-based speciality products and ingredient solutions in India. To cater to the growing demand for products from existing customers and to meet the requirements of new customers, they intend to expand manufacturing capacities for existing products. Sanstar has established long-term relationships and serves over 525 customers, with 162 new customers during FY24. The company plans to expand its customer base by leveraging relationships with existing customers in India and globally while simultaneously pursuing opportunities to develop new relationships. The company demonstrated consistent growth in terms of revenues and profitability at a compound annual growth rate (CAGR) of 45.4% and 104.8% between FY2022-24, respectively. The company experienced sustained growth in various financial indicators, including revenue, profitability, cash flows and returns, and consistent improvement in balance sheet position in the last three financial years. As we advance, Sanstar's financial performance is driven by its established market position in the industry, increasing global footprint, high entry barriers, expanded manufacturing capacities to capture additional market share, and long-lasting customer relationships, which enable it to tap the significant opportunities in existing and future products. **The issue is valued at a P/E of 20.0x on the upper price band based on FY24 earnings, which is deemed fair. Therefore, we recommend a SUBSCRIBE rating for the issue.**

Key Risks

- ⇒ The company's is in the 'maize-based specialty products industry and ingredient solutions', and maize is the primary raw material required for the manufacturing of its product portfolio. Any fluctuations in the prices of maize may adversely affect the pricing of products and may impact the business, results of operation, financial condition, and cash flows.
- ⇒ The company's proposed plans to fund the capital expenditure requirement for expanding the Dhule facility are subject to the risk of unanticipated delays in obtaining approvals, implementation, and cost overruns, which may adversely affect the business and results of operations.
- ⇒ During the peak arrival season of maize harvesting, the company procures and stores significant quantities of maize for manufacturing, and for the purpose of doing the same, a significant amount of working capital is required. The company's inability to meet the said working capital requirement during the peak harvesting season of maize may have an adverse effect on its results of operations and overall business.

Income Statement (Rs. in millions)

Particulars	FY22	FY23	FY24
Revenue			
Revenue from Operations	5,044	12,051	10,673
Total Revenue	5,044	12,051	10,673
Expenses			
Cost of raw materials consumed	3,915	9,589	8,329
Purchase of stock in trade	0	12	0
Changes in inventory	-44	25	-67
Employee benefit expenses	105	193	220
Other expenses	671	1,508	1,209
Total Operating Expenses	4,647	11,326	9,691
EBITDA	397	724	981
Depreciation and Amortization expenses	90	119	121
Other income	4	46	144
EBIT	311	652	1,005
Finance costs	91	98	107
Exceptional Item			
PBT	220	554	897
Total tax	61	136	230
PAT	159	418	668
Diluted EPS	1.1	3.0	4.8

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY22	FY23	FY24
Cash Flow from operating activities	297	-60	286
Cash flow from investing activities	-45	-714	-369
Cash flow from financing activities	-250	830	52
Net increase/(decrease) in cash and cash equivalents	2	56	-31
Cash and cash equivalents at the beginning of the period	5	6	63
Cash and cash equivalents at the end of the period	6	63	32

Source: RHP, BP Equities Research

Balance Sheet (Rs. in millions)

Particulars	FY22	FY23	FY24
Assets			
Non-Current Assets			
Property, plant and equipment	1,331	1,957	2,021
Capital work in Progress	33	9	205
Other intangible assets	-	-	-
(i) Investments	0	2	2
(ii) Other financial assets	2	21	13
Other non current assets			
Total Non current assets			
Inventories	127	265	1,140
Trade Receivables	402	912	1,175
Cash and cash equivalents	6	63	32
Other Bank Balance	12	4	20
Others financial assets	0	4	6
Other Current Financial Assets	0	6	0
Other current assets	162	441	662
Total Current Assets	709	1,695	3,035
Total Assets	2,075	3,684	5,276
Equity and Liabilities			
Equity Share Capital	295	281	281
Other Equity	557	1,590	2,257
Total Equity	852	1,871	2,538
Non-Current Liabilities			
Financial Liabilities			
(i) Borrowings	575	343	309
(ii) Lease Liabilities	-	-	-
Provisions	0	1	0
Other financial liabilities	1	0	0
Deferred tax liabilities (net)	110	255	317
Other non-current liabilities	-	-	-
Current Liabilities			
Financial Liabilities			
Borrowings	277	774	967
Trade Payable	180	303	960
Other financial liabilities	3	28	16
Current tax liabilities	8	10	88
Provisions	25	37	46
Other current liabilities	44	61	35
Total Current Liabilities	537	1,213	2,111
Total Liabilities	1,222	1,812	2,738
Total Equity and Liabilities	2,075	3,684	5,276

Source: RHP, BP Equities Research

Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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