IPO NOTE

Sanstar Limited

19th July, 2024

Recommendation	SUBSCRIBE
Price Band	Rs 90-95
Bidding Date	19 -23rd July'24
Book Running Lead Manager	Pantomath Capital Advisors Pvt.Ltd
Registrar	Link Intime India Pvt.Ltd
Sector	Other Agricultural Products

Minimum Retail Application- Detail At Cut off Price	
Number of Shares	150
Minimum Application Money	Rs. 14,250
Discount to retail	0
Payment Mode	ASBA

Consolidated Financials (Rs Cr)	FY23	FY24
Total Income	1,205	1,067
EBITDA	72	98
Adj PAT	42	67

Valuations (FY23)	Lower Band	Upper Band
Market Cap (Rs Cr)	1,640	1,731
Adj EPS	3.66	3.66
PE	25	26
EV/ EBITDA	17	18
Enterprise Value (Rs Cr)	1,663	1754

Post Issue Shareholding Pattern	
Promoters	70%
Public/Other	30%

Offer structure for different categories	
QIB (Including Mutual Fund)	50%
Non-Institutional	15%
Retail	35%
Post Issue Equity (Rs. in cr)	36.4
Issue Size (Rs in cr)	510
Face Value (Rs)	2

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BACKGROUND

Sanstar Limited, specializes in plant-based specialty products and innovative ingredient solutions. They are the fifth largest manufacturer of maize based specialty products and ingredient solutions in India. Their extensive portfolio caters to the food industry, animal nutrition, and various industrial applications with an installed capacity of 3,63,000 tons per annum.

Details of the Issue:

- Total issue of Rs. 510 Cr, consists of offer for sale amounting to Rs. 113 cr and fresh issue of Rs.397 Cr
- Repayment of borrowing amounting to Rs. 100 cr
- Funding the CAPEX requirement for expansion of Dhule Facility worth Rs. 181.6 cr

Investment Rationale:

- Abundant availability of Raw Material
- Increase the revenue contribution from derivative products
- Manufacturing capacities expansion to capture additional market share
- Increasing demand for ready to eat category

Valuation and Recommendation:-

Sanstar Ltd., a leading player in the maize based specialty products and ingredient solutions in India. The company has a wide spectrum of potential opportunities to grow its business on account of rapid growth in demand for maize in the world. The company has planned a capacity expansion to meet the growing market demand for maize-based products. Also, it expects gradual improvement in the margins in the future by introducing derivatives. Historically, Sanstar's revenue has grown at 42% CAGR between FY20-24. In terms profitability, operating margins have improved from 7.1% in FY20 to 9.2% in FY24. When compared with peers, the company has outperformed both in terms of revenue growth and profitability. Thus, company's FY24 return ratios are better than average peer performance; i.e. ROE and ROCE stood at 30.2% / 29.5% (Peer average: 8.9% / 11.1%), respectively.

The issue is valued at 26x to FY24 EPS, which is lower than the peer average of 34.7x. However, if we exclude the Gulshan polyols, the peer average PE valuation comes down to 16.9x, substantially below Sanstar's valuation. Given the stock's high growth and profitability metrics, we recommend SUBSCRIBE to the issue for long term investment.

Financials	FY22	FY23	FY24
Net Revenues	504	1,205	1,067
Growth (%)	0.0%	138.9%	-11.4%
EBITDA	40	72	98
EBITDA Margin (%)	7.9%	6.0%	9.2%
PBT	22	55	90
Adjusted PAT	16	42	67
EPS	0.88	2.30	3.66
ROCE	18.2%	27.8%	29.5%
EV/Sales	3.5	1.5	1.6
EV/EBITDA	44.2	24.2	17.9
P/E	108.6	41.3	26.0

Source: RHP, NBRR

Company Background

Sanstar Limited, specializes in plant-based specialty products and innovative ingredient solutions. They are the fifth largest manufacturer of maize based specialty products and ingredient solutions in India. Their extensive portfolio caters to the food industry, animal nutrition, and various industrial applications with an installed capacity of 3,63,000 tons per annum.

Specialty products and ingredient solutions Produced by the company

Product Range

- **Liquid Glucose** – A versatile sweetener and thickening agent, liquid glucose finds applications in confectionery, bakery, and dairy products.
- **Dried Glucose Solids** – Concentrated glucose powder with an extended shelf life, ideal for food processing and beverage formulations.
- **Maltodextrin Powder** – Derived from starch, maltodextrin serves as a bulking agent, stabilizer, and texture enhancer.
- **Dextrose Monohydrate** – A simple sugar widely used in food & pharmaceuticals
- **Native Maize Starches** – Extracted from maize, these natural starches contribute to the texture and stability of food products.
- **Modified Maize Starches** – Processed starches with improved properties, such as better thickening capabilities and stability.
- **Co-Products** – Sanstar offers valuable by-products like germs, gluten, fiber, and enriched protein, promoting sustainability.

Source: RHP, NBRR

Applications of Specialty products and ingredient solutions Produced by the company

Food Industry

- Sanstar's products enhance taste, texture, and nutritional value in food formulations
- Thickening Agents: Used in sauces, soups, and gravies.
- Sweeteners: Provide sweetness without compromising health
- Stabilizers: Extend shelf life and maintain product quality.
- Emulsifiers and Additives: Improve texture and stability.

Animal Nutrition

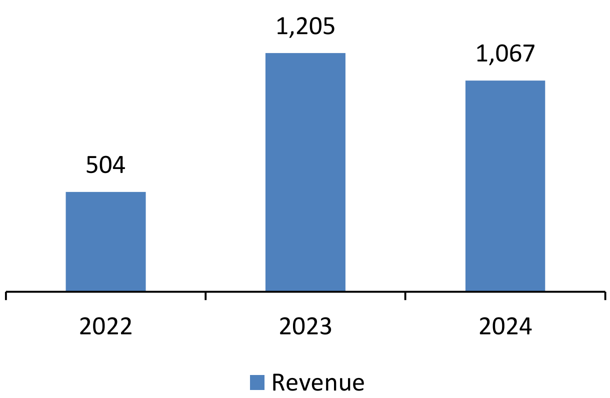
- Nutritional Ingredients: Sanstar's offerings support animal health and growth

Industrial Applications

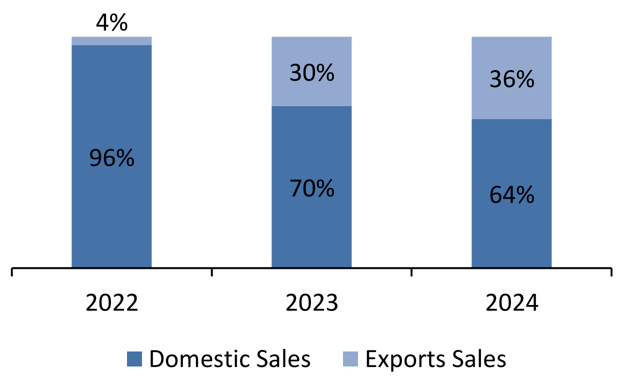
- Pharmaceuticals: Used as disintegrants, excipients, and supplements.
- Industrial Processes: Coating agents, binders, and finishing agents enhance product quality

Source: RHP, NBRR

Topline Performance

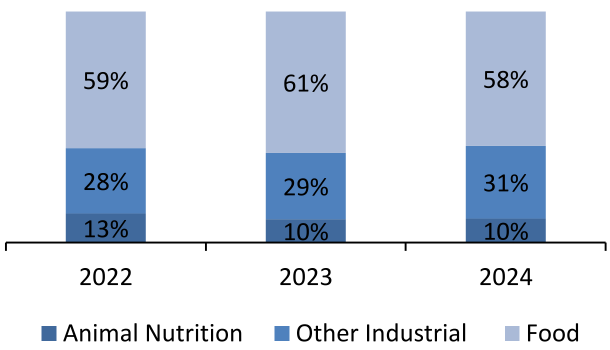


Geography wise sales

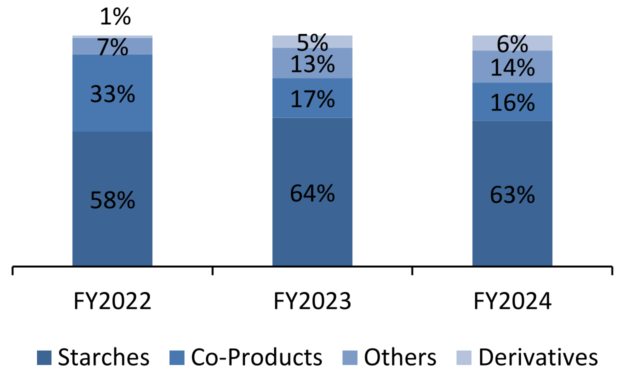


Source: RHP, NBRR

Product Segment Revenue:



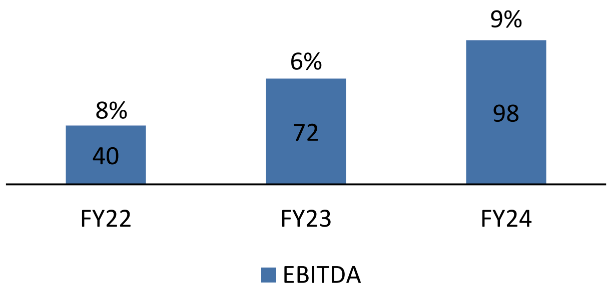
Product mix:



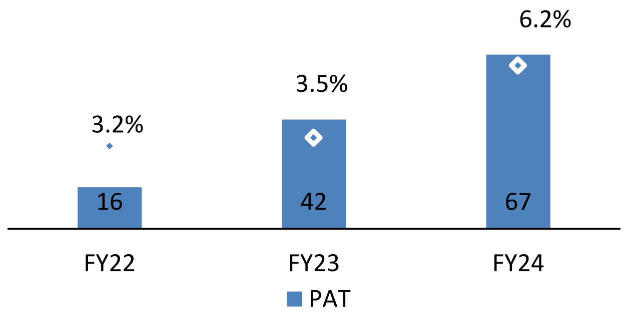
Source: RHP, NBRR

Financial Performance Metrics:

EBITDA Performance



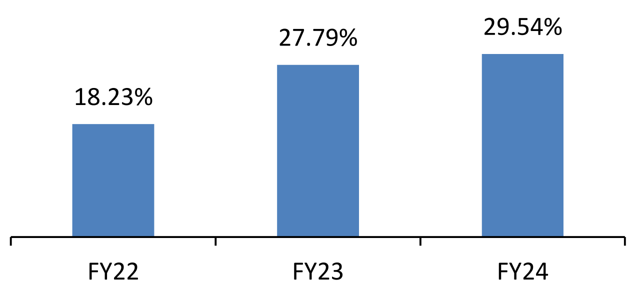
Net Profit Trend



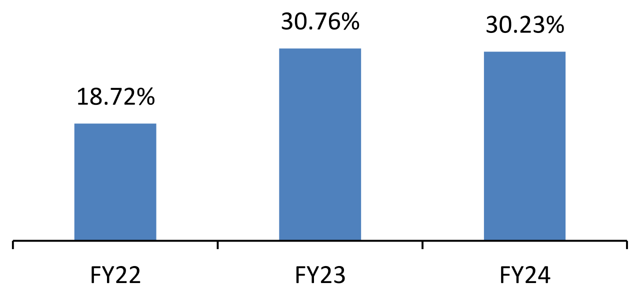
Source: RHP, NBRR

Return Ratios:

Return on Capital Employed



Return on Equity



Source: RHP, NBRR

Investment Rationale

Ease in procurement of raw materials

India is major producer of maize globally, ranked 6th in the world's maize production and 4th in terms of maize acreage. Maize is 3rd most grown cereal after paddy and wheat in India. Rising demand of maize for Ethanol production will also push Indian farmer to increase the productivity in coming years. Further, Dhule manufacturing facility of the company is strategically situated in the maize production belt of Maharashtra and Madhya Pradesh, the facility capitalizes on its location, which accounts for ~25% of India's total maize production. This advantageous positioning allows the company to procure maize—their primary raw material—at competitive prices and with lower freight costs.

Increase the revenue contribution from derivative products

The global market size for maize based derivatives is estimated at $5,414 mn in FY23 and is expected to expand at CAGR of 4.33% from FY23 to FY29 to reach $6,985 mn by FY29. Similarly, market size for maize based derivatives in India is estimated at $439 mn in FY23 and is expected to expand at CAGR of 5.29% from FY23 to FY29 to reach $598 bn by FY29E. Maize based derivatives are generally high margin products than native starches and find applications in specialized industries like pharmaceuticals, food, personal care, flavors and fragrances, among others.
The company intends to further grow the contribution from sale of derivatives to increase their margins and returns going forward. In this direction, the company has propose to expand manufacturing capacity of Liquid Glucose and Dextrose Monohydrate at their Dhule, Maharashtra plant by 300 tons per day (i.e. 150 tons each) to address the growing demand and capture the market share in derivatives. Additionally, they are setting up manufacturing capacity of 50 tons per day of Dextrose Anhydrous, as part of its proposed expansion plan.

Manufacturing capacities and expansion to capture additional market share

The company operates two manufacturing facilities: one in Dhule, Maharashtra, and another in Kutch, Gujarat. Their total Installed Capacity is 363,000 tones as on FY24. To meet the growing demand from existing customers and fulfill customer requirements, the company plans to expand their manufacturing capacities for existing products, including native starches, modified starches, liquid glucose, and dextrose monohydrate. After expansion their aggregate installed capacity of both the facilities is expected to increase to 2,100 TPD (from current 1,100 TPD). The expanded capacity is estimated to commence commercial manufacturing during FY26 (Jul'25). As per Frost & Sullivan Report, once the proposed expansion is commissioned, the Company is expected to become the third largest manufacturer of maize based specialty products and ingredient solutions in India by installed capacity.

Dhule Facility:

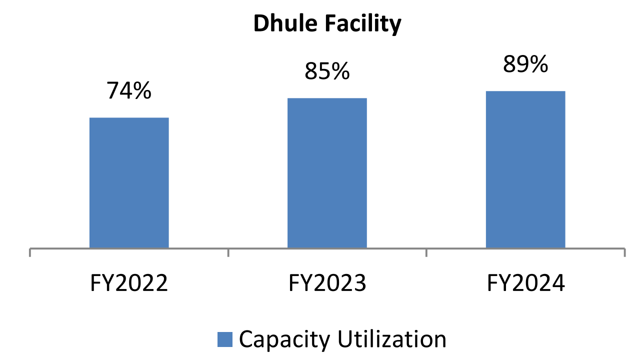
- The Company's state-of-the-art manufacturing facility, established in 2017, sprawls across an impressive 7.90 mn sq ft of land. With 2.46 mn sq ft earmarked for future expansion, this facility is poised for growth. Boasting an aggregate installed capacity of 247,500 tons per annum (equivalent to 750 tons per day as of Mar'24).
- Moreover, the company's foresight extends to storage solutions. Over 50,000 metric tons of maize storage silos and finished goods storage are available at the Dhule Facility. This not only minimizes handling losses and transportation costs but also eliminates the need for third-party storage rentals.
- In a bid to further optimize logistics, the company collaborates with Indian Railways. Their application for a railway siding unit at Nardana promises to reduce transportation costs associated with maize.

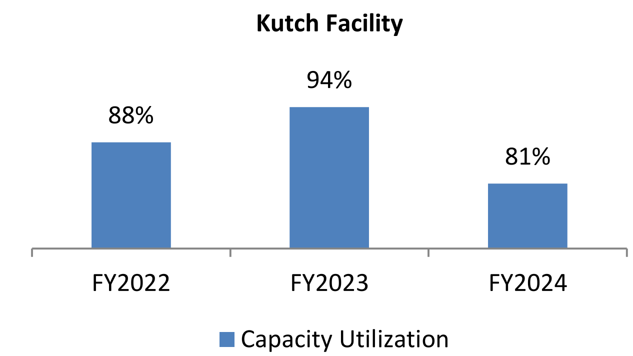
Kutch Facility:

- The Kutch manufacturing facility, registered with the United States Food and Drug Administration (USFDA) in Aug'23 (valid until Dec'24), stands as a testament to excellence.

- Established in 2006, this facility occupies 2.77 mn sq ft (~64 acres), with 1.84 mn sq ft (about 42 acres) earmarked for future expansion. Operating at peak efficiency, the Kutch facility boasts an aggregate installed capacity of 350 tons per day (as of Mar'24).
- Its strategic location near the seaports of Mundra and Kandla—~55 kilometers and 100 kilometers away, respectively—ensures seamless logistics for exports.
- Storage solutions are equally impressive. The maize storage area spans 13,670 sq ft, accommodating substantial quantities of raw materials. Meanwhile, the finished goods storage area covers 25,850 sq ft, providing ample space for storing the fruits of their labor.

Capacity utilization at Dhule & Kutch Facility





Increasing demand for ready to eat category

The evolving lifestyle trends have fueled the popularity of ready-to-eat and ready-to-cook foods. From baby food to chips, baked goods, beverages, candies, sauces, soups, noodles, and pasta, these sectors all rely on starch for various functional purposes. he company's substantial revenue stream from starch sales positions them to capitalize on the thriving market for ready-to-eat and ready-to-cook foods. As consumer preferences continue to evolve, their strategic focus on this essential ingredient ensures a promising future

Risks and concerns

- The manufacturing quantity and the pricing of company's products are significantly dependent on its ability to source quality raw materials at acceptable prices and maintain a stable and sufficient supply of the same. Generally, the company is sourcing its raw material i.e. Maize, through *'Mandis'* and also directly from farmers harvesting maize. It doesn't enter into any contracts for the supply of their raw materials. Thus, any unavailability or pricing fluctuations of raw materials may have an adverse impact on company's business operations.

- Company has proposed the capex plans worth Rs. 200 cr at its Dhule facility to meet the timelines of its customers and to support growing market demand. Any delay in obtaining approvals, implementations or any increase in planned capex may have an adverse impact on company's financial performance.

- The manufacturing of 'maize based specialty products and ingredient solutions' requires controlled conditions such as certain levels of temperature, a certain standard of cleanliness and accuracy and any disruptions and/or shortage of power supply may have an adverse effect on business operations.

Valuation and Recommendation

Sanstar Limited, a leading player in the maize based specialty products and ingredient solutions in India. The company has a wide spectrum of potential opportunities to grow its business on account of rapid growth in demand for maize in the world. Evidently, the company has planned a capacity expansion to meet the growing market demand for maize-based products. Also, it expects gradual improvement in the margins by adding maize derivatives. Historically, Sanstar's revenue has grown at 42% CAGR between FY20-24. In terms profitability, operating margins have improved from 7.1% in FY20 to 9.2% in FY24. When compared with peers, the company has outperformed both in terms of revenue growth and profitability. Thus, company's FY24 return ratios are better than average peer performance; i.e. ROE and ROCE stood at 30.2% / 29.5% (Peer average: 8.9% / 11.1%), respectively.

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Listed Peers

FY24 Figures	Gujarat Ambuja Exports	Gulshan Polyols	Sukhjit Starch and Chemicals	Average	Sanstar Ltd
Revenue	4,927	1,378	1,375	2,560	1,067
CAGR (FY20-24)	6.6%	22.1%	14.5%	14.4%	42.2%
EBITDA Margin	9.0%	4.2%	9.3%	7.5%	9.2%
Asset Turns (x)	1.5	1.3	1.4	1.4	2.0
CCC Days	64	54	58	59	38
ROCE (%)	16.5%	4.3%	12.6%	11.1%	29.5%
ROE (%)	13.3%	3.1%	10.3%	8.9%	30.2%
Debt/Equity	0.1	0.6	0.6	0.4	0.5
EV/EBITDA	14.7	27.4	8.6	16.9	17.9
P/E	18.3	70.2	15.5	34.7	26.0

Source: RHP, NBRR

Financials

P&L (Rs. Cr)	FY22	FY23	FY24
Net Revenue	**504**	**1,205**	**1,067**
% Growth		*139%*	*-11%*
Purchases of stock in trade	387	963	**826**
% of Revenues	*76.7%*	*79.9%*	*77.4%*
Employee Cost	10	19	**22**
% of Revenues	*2.1%*	*1.6%*	*2.1%*
Other expenses	67	151	**121**
% of Revenues	*13.3%*	*12.5%*	*11.3%*
EBITDA	**40**	**72**	**98**
EBITDA Margin	*7.9%*	*6.0%*	*9.2%*
Depreciation	9	12	12
Other Income	0	5	14
Interest	9	10	11
Exceptional item	0	0	0
PBT	**22**	**55**	**90**
Tax	6	14	23
Tax rate	*28%*	*25%*	*26%*
Other Comprehensive income	0	0	(0)
Adj. PAT (norm. Tax)	**16**	**42**	**67**
% Growth		*163%*	*59%*
EPS (Post Issue)	**0.88**	**2.30**	**3.66**

Balance Sheet (Rs. Cr)	FY22	FY23	FY24
Share Capital	30	28	28
Other Equity	56	159	226
Minority Interest	0	0	0
Networth	**85**	**187**	**254**
Total Loans	**85**	**112**	**128**
Other non-curr liab.	11	26	32
Trade payable	18	30	96
Other Current Liab	8	14	18
Total Equity & Liab.	**207**	**368**	**528**
Property, Plant and Equipment	133	196	202
CWIP	3	1	20
Other Intangible assets / Right of u	0	0	0
Non Currrent Financial assets	0	2	1
Other non Curr. assets	0	0	0
Inventories	13	27	114
cash and cash equivalents	1	0	2
Bank balances	1	6	3
Trade receivables(debtor)	40	91	118
Other Current assets	16	45	67
Total Assets	**207**	**368**	**528**

Ratios & Others	FY22	FY23	FY24
Debt / Equity	1.0	0.6	0.5
EBITDA Margin (%)	7.9%	6.0%	9.2%
PAT Margin (%)	3.2%	3.5%	6.2%
ROE (%)	18.7%	30.8%	30.2%
ROCE (%)	18.2%	27.8%	29.5%

Cash Flow (Rs. Cr)	FY22	FY23	FY24
Profit Before Tax	22	55	90
Provisions & Others	18	21	22
Op. profit before WC	**40**	**76**	**112**
Change in WC	(4)	(77)	(66)
Less: Tax	6	5	17
CF from operations	**30**	**(6)**	**29**
Purchase/Sale of fixed assets	(2)	(74)	(38)
Sale/Purchase of Investments	(3)	2	(0)
Interest, dividend and other inc	0	1	1
CF from Investing	**(4)**	**(71)**	**(37)**
miscellaneous	0	14	0
Repayment of Borrowings	(16)	26	16
Increase in General Reserve and Security P		53	0
interest & div paid	(9)	(10)	(11)
CF from Financing	**(25)**	**83**	**5**
Net Change in cash	**0**	**6**	**(3)**
Cash & Bank at beginning	0	1	6
Cash & Bank at end	1	6	3

Turnover Ratios	FY22	FY23	FY24
Debtors Days	29	28	40
Inventory Days	9	8	39
Creditor Days	13	9	33
Asset Turnover (x)	2.4	3.3	2.0

Valuation Ratios	FY22	FY23	FY24
Price/Earnings (x)	108.6	41.3	26.0
EV/EBITDA (x)	44.2	24.2	17.9
EV/Sales (x)	3.5	1.5	1.6
Price/BV (x)	20.3	9.3	9.3

Source: Company Data, NBRR

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Disclosure:

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