

Retail Research	IPO Note
Sector: Speciality Food Product	Price Band (Rs): 90 - 95
18th July 2024	Recommendation: Subscribe for Long Term Investment Horizon

Sanstar Limited

Company Overview:

Sanstar Limited is one of the major manufacturers of plant-based speciality products and ingredient solutions in India for food, animal nutrition and other industrial applications. Their product range includes liquid glucose, dried glucose solids, maltodextrin powder, dextrose monohydrate, maize starches, and co-products like germs, gluten, fiber and enriched protein. These products are used to enhance taste, texture and functionality in various applications, such as food ingredients, animal nutrition and industrial products.

Key Highlights:

1. One of the largest manufacturers of maize-based speciality products and ingredient solutions in India: As per Frost & Sullivan, Sanstar Limited is the fifth largest manufacturer of maize-based speciality products and ingredient solutions in India. The company commercialized manufacturing facilities in Kutch, Gujarat in 2006 and Dhule, Maharashtra in 2017. Since then, the business has expanded to its current scale with an installed capacity of 363,000 tons per year (1,100 tons per day).

2. Strategically located manufacturing facility: The company has two manufacturing facilities spread across a total area of 10.68 million square feet (approximately 245 acres) located in Dhule, Maharashtra and Kutch, Gujarat. The Dhule facility is a modern, sustainable and automated facility designed by a team of 24 in-house engineers. These manufacturing facilities are strategically located near maize harvesting areas and seaports of Mundra, Kandla, Hazira and Nhava Sheva for easy access to raw materials & export of finished products. Overall, 25% of India's maize is harvested in the Dhule geographical region. The Dhule manufacturing plant has got the APMC certificate (Agriculture Produce Market Committee) which helps the company to procure maize directly from the farmers. It becomes win-win condition for farmers as well as Sanstar.

3. Global presence in a market with high entry barriers: Company sales product to 49 countries across Asia, Africa, Middle East, Europe, North America, South & Central America and Oceania. Top export destinations include Malaysia, Vietnam, Kenya, Indonesia, United Arab Emirates, Nigeria, Sri Lanka and Ghana. The company is recognized as Two Star Export House with high entry barriers in the maize-based products industry, including capital costs, research and development and customer relationships.

Valuation: The company is valued at the FY24 P/E multiple of 25.9x at post-issue market capital. Its Revenue/PAT has grown at a CAGR of 45%/105%, from Rs 504 crore/Rs 16 cr in FY22 to Rs 1,067 crore/Rs 67 cr in FY24. The company is raising funds through fresh issue to fund its capital expenditure towards the expansion of the Dhule facility which will be commissioned by July'25. The additional capacity of 1000 TPD will further boost topline during FY26. Global/Indian Maize Starch Market is expected to grow at a CAGR of 4.25%/5.12% from 84.5 mn MT/7.2 mn MT to 107.1 mn MT/9.6 mn MT between FY23 and FY29, which will give an edge for the company's growth. We recommend subscribing to the issue for a long-term investment horizon.

Issue Details	
Date of Opening	19 th July 2024
Date of Closing	23 rd July 2024
Price Band (Rs)	90 -95
Offer for sale (Equity shares)	1,19,00,000
Fresh Issue (Equity shares)	4,18,00,000
Issue Size (Rs cr)	510 @ Upper Price Band
No. of shares	5,37,00,000
Face Value (Rs)	2
Post Issue Market Cap (Rs cr)	1,640 – 1,731
BRLMs	Pantomath Capital Advisors Private Limited
Registrar	Linkintime India Private Limited
Bid Lot	150 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue	
	Estimated utilization from net proceeds (Rs cr)
Funding the capital expenditure requirement for expansion of the Dhule Facility	181.6
Repayment and/or pre-payment, in part or full, of certain borrowings availed by the Company	100.0
General corporate purposes*	-*
Total proceeds from fresh issue	-

* To be finalised upon determination of the Offer Price and updated in the Prospectus prior to filing with the RoC. The amount utilised for general corporate purposes shall not exceed 25% of the Gross Proceeds.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	14,01,45,100	99.8
Public & Others	2,99,150	0.2
Total	14,04,44,250	100.0

Post Issue @ Lower Price Band	No. of Shares	%
Promoter & Promoter Group	12,82,45,100	70.4
Public & Others	5,39,99,150	29.6
Total	18,22,44,250	100.0

Post Issue @ Upper Price Band	No. of Shares	%
Promoter & Promoter Group	12,82,45,100	70.4
Public & Others	5,39,99,150	29.6
Total	18,22,44,250	100.0

Source: RHP, SSL Research

Key Financials

	FY22	FY23	FY24
Revenue from operation (Rs cr)	504	1,205	1,067
EBITDA (Rs cr)	40	72	98
PAT (Rs cr)	16	42	67
EBITDA Margin (%)	7.9	6.0	9.2
PAT Margin (%)	3.2	3.5	6.3
ROE (%)	18.7	22.3	26.3
ROCE (%)	18.2	21.8	26.3
PE (x)	83.8	31.9	20.0

Source: RHP, SSL Research

Risk Factors

- **Raw material prices:** Any fluctuations in the prices of the raw material may adversely affect the pricing of the products and may have an impact on the margins of the business.
- **No long-term contracts with the suppliers:** The company has not entered into any long-term contracts with the suppliers. Any shortfall, rise in prices or any inability to leverage existing/new relationships with the suppliers can effect the operations of the business.
- **Working capital requirement:** During the peak maize harvesting season, the company procures and stores large quantities of maize, the primary raw material for the products, requiring significant working capital. Inadequate working capital during this time could adversely affect the operations and overall business.
- **Reduction in demand from the end user industries:** The company sells its products for specific use by certain industries (In FY24, Food/Animal Nutrition/Other Industrial Application industries contributed 58%/11%/31% of the revenue). Any reduction in the demand or requirement of the products in such industries may result in loss of business and may affect the financial performance and condition.

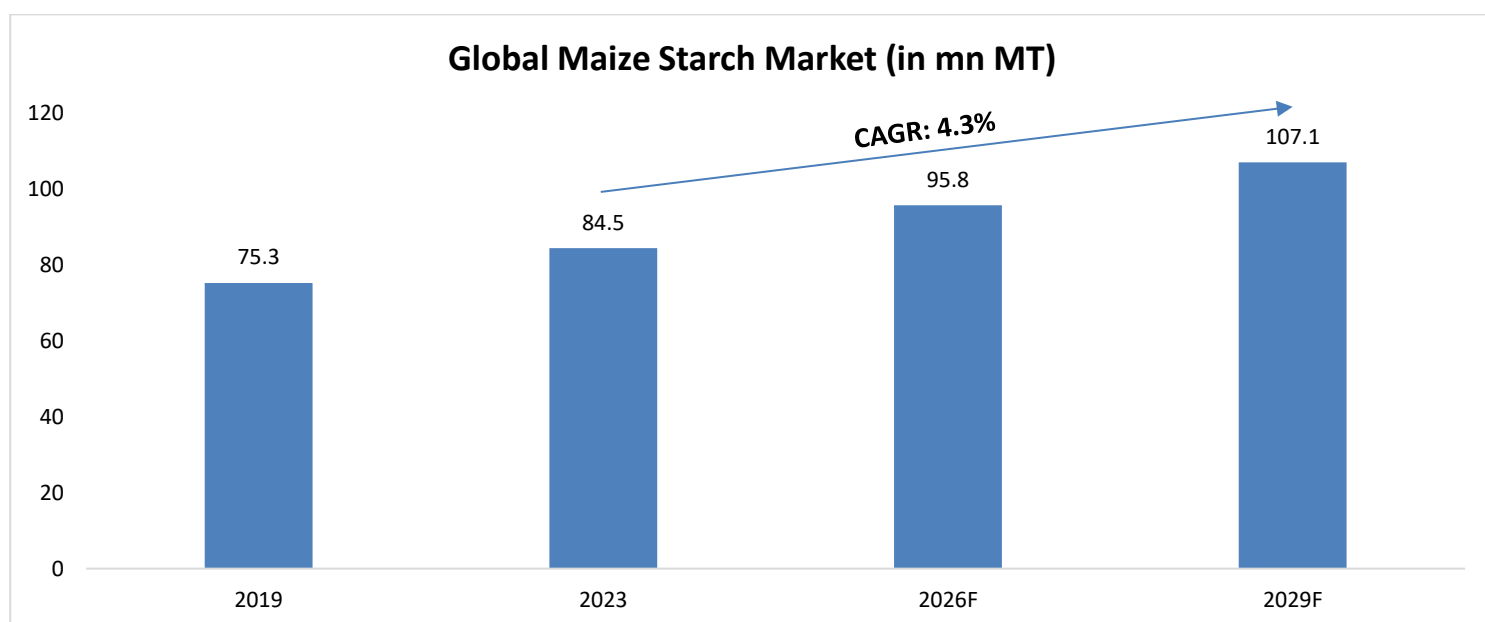
Growth Strategy

- Expanding manufacturing capacities to capture additional market share.
- Leveraging industry-leading capabilities by continuing to diversify customer base and increase wallet share with existing customers.
- Increase global footprint and augment growth in current geographies.
- Increase the revenue contribution from derivative products and scale up organic ingredients segment.
- Foray into manufacturing of Ethanol through leveraging maize sourcing capabilities.

Industry Overview

Global maize starch market: The Global Maize Starch market is anticipated to rise at a CAGR of 4.25% during the forecast between 2023 and 2029 period. In 2023, the market was valued at USD 45,195 mn in value terms and was around 84.5 mn MT in volume terms. Maize starch is a carbohydrate extracted from the endosperm of Maize. Maize starch is the most commercially used starch in various industries. Food and Beverage, Pharmaceutical, Adhesive, Paper, Textile are some of the major industries using maize based specialty products and ingredients solutions.

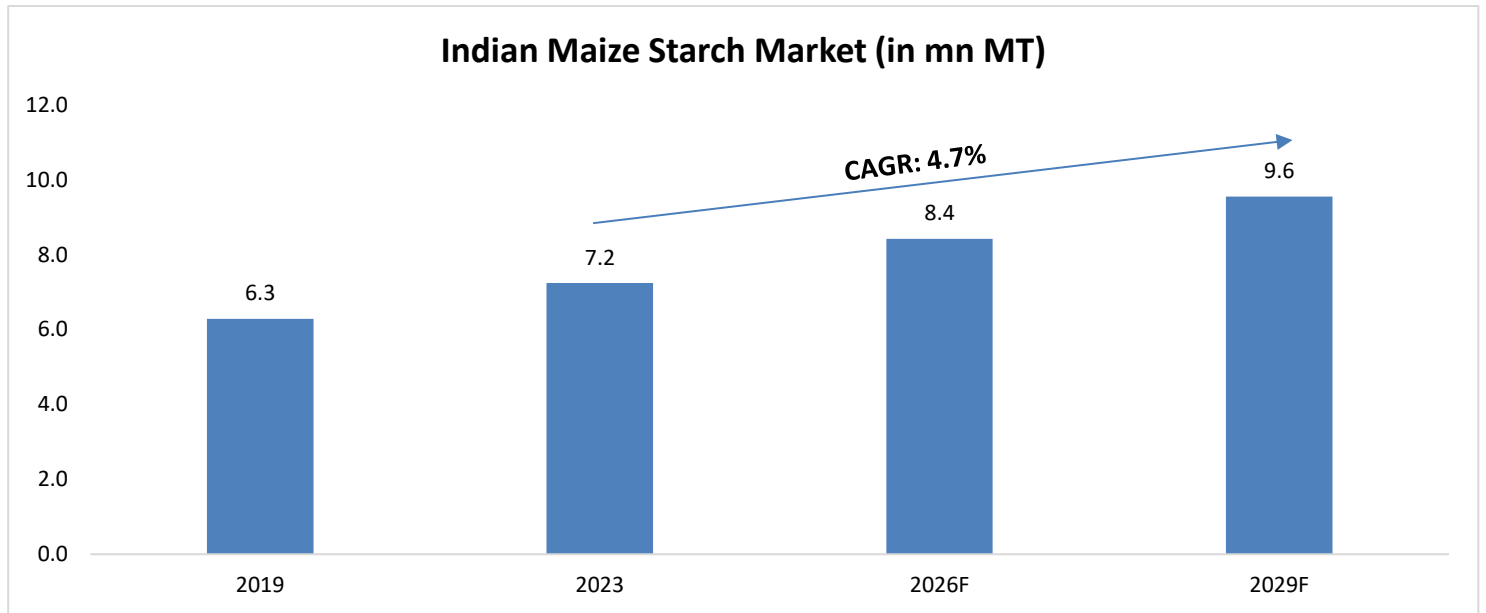
The growing demand for convenience food in recent years has necessitated the increased use of maize-based specialty products and ingredients solutions. Starches are increasingly utilized as a food additive in various applications such as thickening of sauces, viscosity-control agent to the binding of baking ingredients, moldings of gums, etc. Additionally, the functional superiority of modified starches has rapidly expanded its application spectrum across the diverse range of applications. Maize is the major raw material in the production of maize-based specialty products and ingredients solutions and Maize starch accounts for a significant share in the starch market compared to the starch derived from other raw materials such as rice, potato, cassava, and others. Such functional properties of starch is contributing to the growth of the market.



Source: RHP, SSL Research

Indian maize starch market: In India, Maize has a great potential in processing due to its high nutritive value and commercial uses. Maize is common name for a cereal grass widely grown for food and livestock fodder. Maize starch, is a carbohydrate extracted from the endosperm of Maize. Of the total Maize produced in India, nearly one-third of production is for human consumption with ~10-15% used for starch production. Nearly 50-55% is consumed for feed (animal & poultry) production.

This white powdery substance- Starch, is used for many culinary, household, and industrial purposes. India is among the top 10 maize producing countries in the world. Karnataka, Andhra Pradesh and Maharashtra together account for nearly half of India's production of Maize. India exports as well as imports Maize Starch. Import figures are very small compared to exports, thus depicting India's ability to meet the domestic demand. The Indian Maize Starch market is anticipated to rise at a considerable rate during the forecast period with a CAGR of ~4.74% between 2023 and 2029. In 2023, the market was valued at USD 3,121 mn in value terms and was around 7.27 mn MT in volume terms.



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY22	FY23	FY24
Revenue from Operations	504	1,205	1,067
YoY growth (%)	-	138.9	(11.4)
Cost Of Revenues (incl Stock Adj)	387	963	826
Gross Profit	117	243	241
Gross margins (%)	23.3	20.1	22.6
Employee Cost	10	19	22
Other Operating Expenses	67	151	121
EBITDA	40	72	98
EBITDA margins (%)	7.9	6.0	9.2
Other Income	0	5	14
Net Interest Exp.	9	10	11
Depreciation	9	12	12
Exceptional Items	0	0	0
PBT	22	55	90
Tax	6	14	23
PAT	16	42	67
PAT margin (%)	3.2	3.5	6.3
EPS	1.1	3.0	4.8

BALANCE SHEET			
(Rs cr)	FY22	FY23	FY24
Assets			
Net Block	133	196	202
Capital WIP	3	1	20
Other Non current Assets	0	2	1
Current Assets			
Inventories	13	27	114
Trade receivables	40	91	118
Cash and Bank Balances	2	7	5
Other Current Assets	16	45	67
Total Current Assets	71	169	304
Current Liabilities & Provisions			
Trade payables	18	30	96
Other current liabilities	5	10	14
Short-term provisions	2	4	5
Total Current Liabilities	26	44	114
Net Current Assets	45	126	189
Assets Classified as held for sale	-	-	-
Total Assets	181	324	413
Liabilities			
Share Capital	30	28	28
Reserves and Surplus	56	159	226
Total Shareholders Funds	85	187	254
Total Debt	85	112	128
Net Deffered Tax Liability	11	26	32
Total Liabilities	181	324	413

Cash Flow (Rs cr)	FY22	FY23	FY24
Cash flow from Operating Activities	30	(6)	29
Cash flow from Investing Activities	(4)	(71)	(37)
Cash flow from Financing Activities	(25)	83	5
Free Cash Flow	28	(81)	(12)

RATIOS			
	FY22	FY23	FY24
Profitability			
Return on Assets (%)	7.7	11.3	12.7
Return on Capital Employed (%)	18.2	21.8	26.3
Return on Equity (%)	18.7	22.3	26.3
Margin Analysis			
Gross Margin (%)	23.3	20.1	22.6
EBITDA Margin (%)	7.9	6.0	9.2
Net Income Margin (%)	3.2	3.5	6.3
Short-Term Liquidity			
Current Ratio (x)	1.3	1.4	1.4
Quick Ratio (x)	1.1	1.2	0.9
Avg. Days Sales Outstanding	29	28	40
Avg. Days Inventory Outstanding	9	8	39
Avg. Days Payables	13	9	33
Fixed asset turnover (x)	3.8	6.2	5.3
Debt-service coverage (x)	0.4	0.6	0.7
Long-Term Solvency			
Total Debt / Equity (x)	1.0	0.6	0.5
Interest Coverage Ratio (x)	3.4	6.6	9.4
Valuation Ratios			
EV/EBITDA (x)	35.7	19.9	14.8
P/E (x)	83.8	31.9	20.0
P/B (x)	15.7	7.1	5.3
EV/Sales (x)	2.8	1.2	1.4

Source: RHP, SSL Research

Peer Comparison

	Sanstar Limited	Gujarat Ambuja Exports Limited	Gulshan Polyols Limited	Sukhjit Starch and Chemicals Limited
CMP	95	138	201	480
Sales (Rs cr)	1,067	4,927	1,378	1,375
EBITDA (Rs cr)	98	443	58	128
Net Profit (Rs cr)	67	346	18	50
M.Cap (Rs cr)	1,731	6,311	1,251	750
Enterprise Value (Rs cr)	1,457	6,489	1,591	1,073
EBITDA Margin (%)	9.2	9.0	4.2	9.3
Net Margin (%)	6.3	7.0	1.3	3.6
EV/Sales (x)	1.4	1.3	1.2	0.8
PE (x)	25.9	18.2	69.5	15.0
EV/EBITDA (x)	14.8	14.6	27.4	8.4
RoE (%)	26.3	13.3	3.1	10.3
RoCE (%)	26.3	16.5	4.3	12.6

The data is based on FY24 financial data.

For Sanstar Limited the Market cap, PE(x), and EV/EBITDA (x) are calculated on post-issue equity share capital based on the upper price band.

CMP as on 16th July, 2024.

Source: RHP, SSL Research

SBICAP Securities Limited

(CIN): U65999MH2005PLC155485 | Research Analyst Registration No INH000000602

SEBI Registration No.: Stock Broker: INZ000200032 | CDSL: IN-DP-314-2017 | NSDL: IN-DP-NSDL-369-2014 | Research Analyst: INH000000602

IRDA/RW/IR2/2015/081 | IRDA/RW/IR1/2016/041 | IRDA: CA0103

Registered & Corporate Office: Marathon Futorex, A Wing, 12th Floor, N. M. Joshi Marg, Lower Parel, Mumbai-400013.

For any information contact us:

022-6854 5555**E-mail: helpdesk@sbicapsec.com | Web: www.sbisecurities.in****DISCLOSURES & DISCLAIMERS:**

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Name	Qualification	Designation
Sudeep Shah	MMS-Finance	DVP- Technical & Derivative Research
Sunny Agrawal	B.E, MBA (Finance)	DVP - Fundamental Research
Rajesh Gupta	PGDBM (Finance), MA (Bus. Eco)	AVP - Fundamental Research
Monica Chauhan	C.A.	Research Analyst - Equity Fundamentals
Harsh Vasa	CA	Research Analyst - Equity Fundamentals
Sumeet Shah	B.E., CFA	Research Analyst - Equity Fundamentals
Sweta Padhi	MBA (Finance)	Research Analyst - Equity Fundamentals
Uday Chandgothia	B-Tech, MBA (Finance)	Research Associate - Equity Fundamentals
Gautam Updhyaya	MBA (Finance)	Research Analyst - Equity Derivatives
Vinayak Gangule	BE (IT)	Research Analyst - Equity Technicals
Pratik Patni	BSc (Biotech Entire)	Research Analyst- Equity Derivatives
Ghanshyam Gupta	MBA (Finance)	Research Analyst- Currency Derivative
Sagar Peswani	B.Tech (ECE)	Research Associate - Equity Technicals
Kalpesh Mangade	B.Com	MIS Analyst - Retail Research

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