

# IPO NOTE



**SANSTAR Limited IPO**  
**Date: 19.07.2024**



- ◆ Incorporated on February 26, 1982, Sanstar Ltd is one of the manufacturers of plant-based specialty products and ingredients solutions in India for food, animal nutrition and other industrial applications.
- ◆ The company's product portfolio includes maize starch, dextrin, modified starches, liquid glucose, high maltose maize syrup, maltodextrin, dextrose monohydrate, sorbitol, gluten and steep liquor and by-products such as germ, gluten, fiber and fortified proteins.
- ◆ The products find application in Textiles, Paper, Pharmaceutical, Food, Adhesives, Animal Nutrition & many other industries.
- ◆ The company has two manufacturing facilities covering a total area of 10.68 million square feet (approx 245 acres) at Dhule in the state of Maharashtra and Kutch in the state of Gujarat. With an installed capacity of 3,63,000 tons per annum (1,100 tons per day), the company is the fifth largest manufacturer of corn-based specialty products and ingredients in India.
- ◆ Post the expansion, Sanstar will have aggregate capacity of 2,100 MTD and be 3rd largest player in maize base speciality products and ingredient solutions providers industry.
- ◆ Sanstar has a reputed clientele of companies such as AB Mauri, ITC, Capital Foods, Hindustan Unilever, Godrej Agrovet and Zydus wellness in domestic market. Sanstar has a strong presence in states of Maharashtra, Gujarat, and Andhra Pradesh.
- ◆ The company exports its products to companies in 49 countries including Asia, Africa, the Middle East, America, Europe and Oceania.

## Issue Details

Price Band (in ₹ per share)	90.00 - 95.00
Issue size (in ₹ Crore)	483.30 - 510.15
Fresh Issue (in ₹ Crore)	376.20 - 397.10
OFS (in ₹ Crore)	107.10 - 113.05
Issue open date	19.07.24
Issue close date	23.07.24
Tentative date of Allotment	24.07.24
Tentative date of Listing	26.07.24
Total number of shares (lakhs)	537.00
No. of shares for QIBs (50%) (lakhs)	268.50
No. of shares for NII (15%) (lakhs)	80.55
No. of shares for S-HNI (33%)(lakhs)	26.85
No. of shares for B-HNI (66%)(lakhs)	53.70
No. of shares for retail investors (35%) (lakhs)	187.95
No of shares for Employee Reservation (lakhs)	NA
Minimum order quantity	150
Face value (in ₹)	2.00
Amount for retail investors (1 lot)	13500-14250
Maximum number of shares for Retail investors at Lower Band	2100 (14 lots)
Maximum number of shares for Retail investors at Upper Band	2100 (14 lots)
Maximum amount for retail investors at lower band - upper band	189000 - 199500
Minimum number of shares for sHNI (2 Lakhs) at upper band	2250 (15 Lots)
Maximum number of shares for sHNI (10 Lakhs) at upper band	10500 (70 Lots)
Minimum number of shares for bHNI at upper band	10650 (71 Lots)
Exchanges to be listed on	BSE, NSE

## Promoters

- GOUTHAMCHAND SOHANLAL CHOWDHARY
- RICHA SAMBHAV CHOWDHARY
- RANI GOUTHAMCHAND CHOWDHARY
- SHREYANS GAUTAM CHOWDHARY

## Objects of the Offer

- ◆ Funding the capital expenditure requirement for the expansion of the Dhule Facility of the Company.
- ◆ Repayment and/or pre-payment, in part or full, of certain borrowings availed by the Company up to 100 crores
- ◆ General Corporate Purposes.

## Brief Financials

PARTICULARS (Rs. Cr)*	FY24	FY23	FY22
Share Capital^^	28.08	28.08	29.50
Net Worth	215.91	149.28	48.96
Revenue from operation	1067.27	1205.06	504.40
EBITDA	98.14	72.44	39.72
EBITDA Margin	9.20	6.01	7.87
Profit/(Loss) After Tax	66.76	41.80	15.92
EPS (in Rs)	23.77	14.88	5.40
EPS( in Rs)^	4.75	2.98	1.08
Net Asset Value (Rs)	15.37	10.63	3.32
Total Borrowing	127.63	111.70	85.22
P/E#	20.00	NA	NA
P/B#	6.18	NA	NA

Source: \*\* EPS adjusted for Rs 2 face value post Rs 10 split. Following NCLT-approved amalgamation, 4,480,000 equity shares of Rs 10 each held by Sanstar Biopolymers Limited were canceled on November 23, 2023.

### Profit & Loss Statement

Particulars (In Crores)	FY2024	FY2023	FY2022
Revenue from operations	1067.27	1205.07	504.40
Other income	14.41	4.60	0.37
Total income	1081.68	1209.67	504.77
YoY Growth (%)	-10.58%	139.65%	-
Cost of materials consumed	832.93	958.86	391.52
Purchase Of Stock in Trade	-	1.16	-
Changes in inventories of finished goods	-6.68	2.48	-4.44
Employee benefit expenses	21.96	19.33	10.48
Other expenses	120.92	150.79	67.13
EBIDTA	98.14	72.45	39.72
EBIDTA Margin (%)	9.20%	6.01%	7.87%
Depreciation and amortisation expense	12.09	11.85	9.02
EBIT	86.05	60.59	30.70
EBIT Margin (%)	8%	5%	6%
Finance cost	10.74	9.81	9.09
Profit before tax	89.72	55.39	21.98
Tax expenses			
Current tax	16.69	5.38	5.68
Deferred tax	6.27	8.21	0.38
Total tax expenses	22.96	13.58	6.06
Profit for the year	66.77	41.81	15.92
PAT Margin (%)	6.26%	3.47%	3.16%
Earnings per share			
Basic & Diluted (as per FV- Rs.10 per share)	23.77	14.88	5.40
Basic & Diluted (as per FV- Rs.2 per share)	4.75	2.98	1.08

### Cashflow Statement

Particulars (In Crores)	FY2024	FY2023	FY2022
Cash generated from operating activities	45.28	-0.64	35.40
Income tax paid (net of refunds)	-16.69	-5.38	-5.68
Net cash generated from operating activities	28.60	-6.02	29.71
Net cash used in investing activities	-36.89	-71.39	-4.50
Net cash used in financing activities	5.20	83.04	-25.03
Net increase/(decrease) in cash and cash equivalents	-3.10	5.63	0.19
Cash and cash equivalent as at 1 April	0.07	0.15	0.06
Less: Transferred pursuant to composite scheme of arrangement	-	-	-
Cash and cash equivalent as at year end	-3.10	5.63	0.19

### Balance Sheet

Particulars (In Crores)	FY2024	FY2023	FY2022
Assets			
Non-current assets			
Property, plant and equipment	202.13	195.75	133.14
Capital work-in-progress	20.47	0.91	3.27
Financial assets	-	-	-
i) Investments	0.16	0.15	-
iii) Other Financial assets	1.30	2.08	0.17
Total non-current assets	224.05	198.88	136.57
Current assets	-	-	-
Inventories	114.03	26.53	12.65
Financial assets	-	-	-
i) Trade receivables	117.51	91.20	40.22
ii) Cash and Cash equivalents	3.18	6.27	0.64
Bank balance and another financial component	1.98	0.38	1.17
iii) Other Financial assets	0.57	0.41	0.01
Current tax Asset	-	0.56	-
Other Current Asset	66.25	44.12	16.19
Total current assets	303.52	169.47	70.88
Total assets	527.57	368.35	207.45
Liabilities			
Equity Capital	28.09	28.09	29.50
Other Equity	225.67	159.04	55.71
Total Equity	253.76	187.13	85.21
Liabilities			
Non-current liabilities			
Financial liabilities			
i) Borrowings	30.92	34.28	57.54
ii) Other Financial Liabilities	-	0.02	0.05
Provisions		0.08	0.04
Deferred tax liabilities (net)	31.75	25.52	10.96
Total non-current liabilities	62.67	59.91	68.58
Current liabilities			
Financial liabilities			
i) Borrowings	96.72	77.42	27.68
iii) Trade payables	-	-	-
Total outstanding dues of micro and small enterpris	0.64	1.28	0.55
Total outstanding dues to others	95.34	29.00	17.50
iv) Other current financial liabilities	1.61	2.77	0.26
Provisions	4.57	3.70	2.47
Current tax liabilities (net)	8.80	1.02	0.76
Other Current liabilities	3.48	6.13	4.44
Total current liabilities	211.14	121.32	53.66
Total liabilities	273.81	181.22	122.24
Total equity and liabilities	527.57	368.35	207.45

## Industry Review

- ◆ 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. The 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 ~5.12% 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.
- ◆ Based on product type, the India Maize starch market is segmented into native, and modified. Amongst both, Native Maize Starch accounts for a higher share ~ 60.8% of the total market in value terms.

### Global Native Maize Starch Market

- ◆ The Global Native Maize Starch industry is expected to be valued at USD 29,631 million in 2023 with estimated growth rate of CAGR of 3.78 % from 2023 -2029.
- ◆ Historically, the native maize starch market grew at CAGR of 2.78% from 2019 till 2023. Increasing demand from Food & Beverages, Textiles, Paper industries clubbed with governments focus to increase productivity of maize is driving the growth the native maize starch market. Use of native maize starch in cosmetics, adhesives and pharmaceutical industry is further fuelling the growth of market.
- ◆ In terms of volume, the native maize starch market is expected to be valued at 59.6 million tons in 2023 having grown at CAGR 2.31% from 2019. The market is expected to reach 74.2 million tons by 2029 with CAGR of 3.71%.

### Global Modified Starch Market

- ◆ Starch holds an important place among the flexible food ingredients that provides value addition for several industrial applications. Many of its chemically modified derivatives offers high technological value in both food and non-food applications.
- ◆ Modified starches are designed to overcome the shortcomings of native starches such as loss of viscosity and thickening power upon cooking and storage, particularly at low pH, retrogradation characteristics, syneresis, etc.
- ◆ The global modified starch market is estimated at USD 15,683 million in 2023 growing at an estimated CAGR of 5.11% through 2023-2029. Modified starch has numerable specific applications resulting in higher efficiency and better quality of end products. Usage of modified starch in the manufacturing of ethanol and packaging industry is driving the demand for modified starch.
- ◆ In the paper industry, modified starch imparts lower fiber loss, better printability. The key consideration for the growth of modified starch industry is its GMO-free nature and strong organic focus.

### Growth drivers for maize based specialty products and ingredients solutions industry in India

- ◆ Abundant availability of Raw Material – India is major producer of maize globally. It ranked 6th in the world's maize production and 4th in terms of maize acreage.
- ◆ Wide range of applications – Starch has multiple uses across industries. Food industry is largest consumer of maize based specialty products and ingredients solutions. Cardboard paper uses significant quantities of modified starches, actively and in processing. Starch is also used for manufacturing adhesives. Native and modified starch is used in pharma industry as a tablet and capsule diluent, an excipient, a tablet and capsule disintegrant, as binder or as a glidant. Thus, demand for maize based specialty products and ingredients solutions have diversified applications boosting its demand.
- ◆ Increasing demand for ready to eat category
- ◆ Global opportunities – India is the largest exporter of Maize starch globally. With local raw material availability, abled processing sector and good quality at lower cost with further increase the demand of Indian maize based specialty products and ingredients solutions globally.



## Competitive Strengths of the Company

### One of the largest manufacturers of maize based speciality products and ingredient solutions in India with diverse product portfolio; Revenue and PAT CAGR of 45% and 105% over Fiscal 2022-2024

- ◆ As per Frost & Sullivan (Company Commissioned Report dated May 18, 2024), they are the fifth largest manufacturer of maize based speciality products and ingredient solutions in India.
- ◆ They commenced commercial manufacturing from their manufacturing facilities located at Kutch, Gujarat and Dhule, Maharashtra in the year 2006 and 2017 respectively and have grown their business to the current scale with an installed capacity of 363,000 tons per annum (1,100 tons per day) (Source: Company Commissioned Report from Frost & Sullivan, dated May 18, 2024).
- ◆ Company has demonstrated consistent growth in terms of revenues and profitability. The revenue from operations has increased at a CAGR of 45.46% from ₹ 5,044.02 million in Fiscal 2022 to ₹ 10,672.71 million in Fiscal 2024 while profit after tax has grown at a CAGR of 104.79% from ₹ 159.21 million in Fiscal 2022 to ₹ 667.67 million in Fiscal 2024.

### Speciality products and ingredients solutions player catering to diverse industry segments and poised to benefit from mega industrial trends

- ◆ They are a speciality products and ingredients solutions company manufacturing native and modified maize starches, derivatives and co-products for applications including ingredients, thickening agents, stabilizers, sweeteners, emulsifiers, additives, nutritional ingredients, disintegrants, excipients, supplements, coating agents, binders, smoothing & flattering agents, finishing agents, amongst others, across diverse end user industries.
- ◆ Their manufacturing facilities, their exports presence & exposure in over 49 countries and their track record of commercializing and scaling up new products, position them advantageously to capture requirements of diverse end user industrial sectors.

### Global presence in a market with high entry barriers

- ◆ The maize-based speciality products and ingredient solutions industry in which the Company operates has high entry barriers, which include the high capital costs of building manufacturing facilities, the lead time and expenditure required for research and development.
- ◆ Given the nature of the application of products and the processes involved, products are subject to, and measured against, high quality standards and product approval systems and specifications.

### Large, diversified customer base with long lasting relationships

- ◆ They have served over 525 customers during the Fiscal 2024 and over 162 new customers, on the basis of their Restated Consolidated Financial Statements during Fiscal 2024. Similarly, they had served 525, 541 and 215 customers during Fiscals 2024, 2023 and 2022 respectively.
- ◆ They have also established long term relationships where 96 customers had placed repeat orders with them in each of the previous three Fiscals on the basis of their Restated Consolidated Financial Statements.

### Strategically located, sustainability driven, state of the art manufacturing facilities

- ◆ Company's manufacturing facilities are strategically located in terms of both proximity to their raw material sources i.e. maize harvesting belts as well as seaports of Mundra, Kandla, Hazira and Nhava Sheva, for exports of their finished products.

### Well positioned to leverage the large opportunities in speciality products and ingredient solutions industry

- ◆ Company's market position in the industry and their vast experience, large capacities and lasting customer relationships enables them to tap the large potential and opportunities in their existing and future products.

### Foray into manufacturing of Ethanol through leveraging the maize sourcing capabilities

- ◆ The GoI has chosen to push up the 20% Ethanol blend objective in petrol. At a 20% blending level, the demand for ethanol is expected to rise to 1,016 billion litres by 2025.
- ◆ The company has established strong maize sourcing capabilities over the period, leveraging both the relationships with farmers, as well as sourcing from traders and aggregators of maize across the country.

## Risk Factors

### Risk of fluctuations in the prices of raw material

- Any change in prices of raw material may adversely affect the pricing of their products and may have an impact on their business, results of operation, financial condition and cash flows.
- There Company is in the 'maize based speciality products industry and ingredient solutions' and for the manufacturing of their Company's product portfolio the primary raw material required is 'maize'.
- Maize is one of the major cereal crops grown in India and has versatile applications in end use industries (Source: Frost & Sullivan Report). There Company in its usual course of business meets its raw material requirement by way of procurement from mandis that are local market places and also directly from farmers harvesting maize.

### Risk of short-term contracts with suppliers

- They have not entered into any long-term contracts with suppliers for their raw materials and an increase in the cost of, or a shortfall in the availability of such raw materials or their inability to leverage existing or new relationships with their suppliers could have an adverse effect on their business and results of operations.
- They in their usual course of business meet their raw material requirement by way of procurement from mandis that are local market places and also directly from farmers harvesting maize located near of Manufacturing Facilities.
- In the usual course of business, they do not enter into any contracts for the supply of their raw materials, i.e., contractual arrangements with the third-party suppliers or local maize harvesting farmers.
- The absence of any contracts at fixed prices exposes them to volatility in the prices of raw materials that they require and they may be unable to pass these additional costs onto their customers, which may reduce their profit margins.

### Inaccurate demand forecasting and inventory management could harm their business and finances.

- There manufacturing process require them to anticipate the demand for their products based on the feedback received from their own marketing personnel, as well as the generally available market data of the 'maize based speciality products and ingredient solutions industry'.

## Peer Comparison

Name of the company	Revenue from operations (in Cr)	Face Value (Rs per share)	EPS (in Rs)	NAV (Per share Rs)	RoNW (%)	P/E*	P/B*
Sanstar Limited	1081.68	2.00	4.75	15.37	30.92	20.00	6.18
Gujarat Ambuja Exports Limited	5071.42	1.00	7.54	60.37	12.49	17.89	2.23
Gulshan Polyols Limited	1390.18	1.00	2.85	123.63	2.30	70.74	1.63
Sukhjit Starch and Chemicals Limited	1385.04	10.00	31.98	321.75	9.94	14.60	1.45

\*P/E & P/B ratio based on closing market price as of July 15th, 2024, at the upper price and of IPO, financial details consolidated audited results as of FY24

## Our Views

- ◆ 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 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 Company 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.
- ◆ The Company is a significant player in the Indian market for plant-based speciality products and ingredient solutions, catering to food, animal nutrition, and industrial applications.
- ◆ The company's diverse product offerings include liquid glucose, maltodextrin powder, dextrose monohydrate, and various maize starches, along with co-products like germs, gluten, and enriched protein. They plan to increase share of derivatives products in their existing product mix.
- ◆ The company has reputed clientele of companies such as AB Mauri, ITC, Capital Foods, HUL, Godrej Agrovet, Zydus Wellness etc. in domestic market.
- ◆ The company has shown a steady increase in revenue over the past three years. Exports of the company which consist of 36% of revenue has grown majorly by 358% CAGR growth (FY22-24)
- ◆ For FY24, the company reported a profit of Rs. 66.76 crore, up from Rs. 41.80 crore in FY23 and Rs. 15.92 crore in FY22. The company has a RoNW of 30.92% which is higher than its listed industry peer average of 8.24%. Moreover, Sanstar has an attractive P/E of 20x as compared to its listed industry peer average of 34.41x.
- ◆ 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.
- ◆ It presents a compelling investment opportunity due to its industry leadership, diverse product portfolio, and robust global presence.
- ◆ The issue is valued at a P/E of 20.0x on the upper price band based on FY24 earnings, which appears fair. Therefore, we recommend a SUBSCRIBE rating for the issue.

We recommend to **SUBSCRIBE** the IPO for long-term & listing gains.

Sources: Company website and red herring prospectus

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