



IPO Note

Sanstar Limited

Recommendation: **APPLY!**

Company Background -

- Sanstar Limited was founded in 1982 and has its registered office in Paldi, Ahmedabad.
- The company is engaged in the business of manufacturing of plant-based speciality products and ingredient solutions in India for food, animal nutrition and other industrial applications.
- The company has two manufacturing facilities spread across cumulative area of 10.68 million square feet (approximate 245 Acres) and are located at Dhule in the state of Maharashtra and Kutch in the state of Gujarat.
- The company's products are sold in India in 22 states and also exports its products to 49 countries across Asia, Africa, Middle East, Americas, Europe and Oceania.
- As of March 31, 2024, the company employed over 271 personnel (including 60 permanent employees).

Objects of the Issue -

- Funding of capital expenditure requirements for the expansion of the Dhule Facility.
- Repayment and/or pre-payment, in part or full of certain borrowings availed by the company.
- General Corporate Expenses.

Promoters Name -

Gouthamchand Sohanlal Chowdhary, Sambhav Gautam Chowdhary and Shreyans Gautam Chowdhary

Rationale for recommendation -

- ✓ The company has seen an increasing trend in its margins over the years and P/E is 25.93 times.
- ✓ The company operates in a growing industry and the management of the company is good.
- ✓ The company has good objectives for the issue.
- ✓ The company has a good footprint domestically and internationally and the company is the 5th largest manufacturer of maize-based speciality products Source- Frost & Sullivan and 2nd Largest Exporter in India.
- ✓ The company intends to foray into ethanol manufacturing and look for other consumer-based products.

IPO Details

Opening Date	July 19, 2024
Closing Date	July 23, 2024
Allotment Date	July 24, 2024
Listing Date	July 26, 2024
Stock Exchange	BSE, NSE
Lot Size	150 Shares
Issue Price Per Share	₹90 to ₹95
Issue Size	510.15 Cr.
Fresh Issue	397.10 Cr.
Offer for Sale	113.05 Cr.
Application Amt	Min ₹14,250 (150 shares), Max ₹1,99,500 (2,100 shares)

KPIs

KPI's	FY 22	FY 23	In Cr.
			FY 24
Revenue	504.40	1,205.07	1,067.27
EBITDA	39.72	72.45	98.14
Net Profit	15.92	41.80	66.77
RoCE	19.96%	24.53%	27.19%
ROE	18.68%	22.34%	26.31%
P/E	87.96	31.88	20.00

Promoter Share Holding Pattern

Pre-Issue	Post Issue
99.79%	70.37%

Valuation Parameters

Particulars	Pre-Issue	Post Issue
EPS	4.75	3.66
BVPS	18.07	34.17
P/E	20.00	25.93
P/BV	5.26	2.78
Mkt Cap (In Cr)	1,334.22	1,731.32

Lead Managers -

Pantomath Capital Advisors Private Limited

Registrar -

Link Intime India Private Limited

Business Overview -

Originally Incorporated on February 26, 1982, Sanstar Limited has its registered office in Ahmedabad, Gujarat, India.

The company is engaged in the business of manufacturing of plant-based speciality products and ingredient solutions in India.

The company operates in the maize-based speciality products industry. There is an increasing demand for maize-based speciality products and ingredient solutions in food and beverages, animal nutrition, pharmaceuticals, adhesives, paper, textiles, etc from developing economies like India is to increase the consumption of these products. Pharmaceutical, Animal Nutrition, Convenience Foods, and Paper are expected to grow at a CAGR of 6.9%, 8.2%, 9.9%, and 4.1% respectively.

Industry Served -

- Food** - Ingredients, thickening agents, stabilizers, sweeteners, emulsifiers and additives (in bakery products, confectionery, pastas, soups, ketchups, sauces, creams, deserts, amongst others)
- Animal Nutrition** - nutritional ingredients
- Other Industrial Products** - disintegrants, excipients, supplements, coating agents, binders, smoothing & flattering agents, finishing agents, among others.

Revenue derived from the above-mentioned industry segment is as follows -

(Amt in Cr)

Industry / Sector	2022		2023		2024	
	Amt	%	Amt	%	Amt	%
Food	3,044	59.11	7,720	61.25	6,451	58.12
Animal Nutrition	649	12.62	1,275	10.12	1,160	10.45
Other Industrial Applications	1,456	28.27	3,608	28.63	3,489	31.43
Total	5,150	100	12,605	100	11,101	100

Geographies Served -

The company exports products to 49 countries across Asia, Africa, Middle East, Americas, Europe and Oceania, during Fiscal 2024. The company has footprints across India, with its products being sold in 22 states.

Revenue derived from the above-mentioned geography is as follows -

(Amt in Cr)

Geography	2022		2023		2024	
	Amt	%	Amt	%	Amt	%
Exports	4,962	96.35	8,828	70.04	7,156	64.47
Domestic	187	3.65	3,776	29.96	3,944	35.53
Total	5,150	100	12,605	100	11,101	100

Product Portfolio -

Maize Based Ingredient's -

Native Maize Starch - Foods, and pharmaceuticals.

Modified Maize Starch - Pharmaceuticals, Paper

Yellow Dextrin - Adhesives, Dyes, Abrasives, Packaging

White Dextrin - Pharmaceuticals, Paper, Textile, Explosive Metal Azides

Liquid Glucose - Foods (confectionary, candies, syrups, bakery, ready to eat sweets), and pharmaceuticals.

Dried Glucose Solid - Food (confectionary, jams, jellies, preserves, syrup toppings)

Maltodextrin - Food (additives, anti-caking agents, bulking agent)

Liquid Dextrose - Bio-Industry & Fermentation Processing Aids, Plant Care - Fertilizers, Nutrients

Dextrose Monohydrate - Pharmaceuticals (nutritional supplement), Food (confectioneries, jams, jellies; bakery, biscuits). Animal Nutrition

Liquid Sorbitol - Food (processed foods, bakery, confectionery, and seafood), Personal Care

Co-products - Germ, Gluten, Fiber, and Maize steep liquor and applications are in Food and Animal Nutrition.

Capacity Utilization -

The company from Dhule Facility is utilizing 89% of its total capacity installed for FY 2024. As per its Kutch Facility it is utilizing 81% of its total capacity installed for FY 2024.

Competition -

The company operates in maize-based speciality products and ingredient solutions industry and face strong competition from other players of the industry

The company faces competition from global as well as domestic players in the industry segment in which they operate and pricing pressures in the global and some unorganized players has led to players compromising on quality.

For the company some of the end-use industries in which the company operates are not easy to break-into due to high entry barriers.

The bargaining power with the suppliers are low and the bargaining power with the buyers is also low.

Business Strategies -

Expand Manufacturing Capabilities: The company intends to do so by installing additional factory building, machineries and equipment's and utilities to increase the installed capacities by 1,000 Tons Per Day (TPD).

Leverage the industry-leading capabilities: The company intends to invest in innovation and focus on international markets, and aims to improve efficiency, capture greater value, and grow sales in existing geographies.

Increase the revenue contribution: The company intends to increase the revenue contribution from derivative products and scale up the organic ingredients segment

Foray into manufacturing of Ethanol: The company believes with its current capabilities and experience it can leverage to foray into and scale up the production of Ethanol based on maize grain.

Risk Factors -

- The company has pending litigations by the company amounting to Rs. 46 lakhs. Any unfavourable order or decision in such proceedings may render affect the results of operations.
- The company had negative operating cash flow for the FY ended 2023. Any negative cash flow could impact the growth and business.
- The company operates only in the industry of maize-based speciality products and ingredient solutions industry and there is a lack of diversification in other business areas.
- The majority of the company's domestic sales are dependent upon its customers located in the western region of India for FY 2024, 2023, and 2022 constituting 70.45 %, 75.14 % and 82.69% of the domestic sales respectively.
- Any fluctuations in the prices of the raw materials may adversely affect the pricing of the products and may have an impact on the business, results of operation, financial condition and cash flows.

PEER ANALYSIS

Particulars	Sanstar Limited			Gujarat Ambuja Exports Limited			Gulshan Polyols Limited			Sukhjit Starch and Chemicals Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	3%	3%	6%	10%	7%	7%	8%	4%	1%	6%	4%	4%
EBITDA Margin	8%	6%	9%	16%	11%	12%	14%	8%	5%	14%	10%	10%
RoCE	26%	24%	27%	29%	18%	16%	20%	9%	4%	20%	17%	15%
ROE	19%	22%	26%	22%	14%	12%	30%	14%	3%	19%	14%	9%
EPS (INR)	1.08	2.98	4.75	10.37	7.20	7.54	11.66	6.04	2.85	47.94	40.55	31.98
P/E	87.96	31.88	20.00	12.73	16.14	21.20	26.73	27.91	56.89	-	9.28	14.86

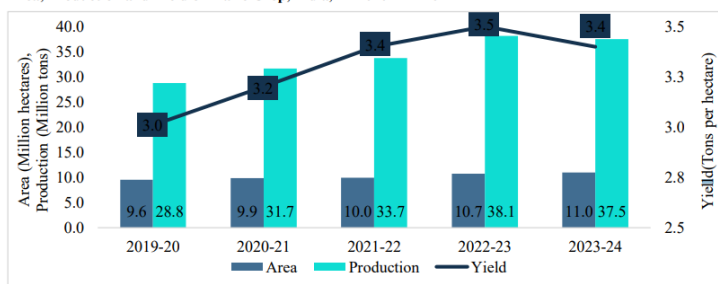
Indian Overview -

Maize Production in India -

Maize is one of the major cereal crops grown in India. Maize is a high nutrient crop with versatile applications in end use industries. Maize crop has an important place in the food grain basket of the country, and it is the third most prioritized food grain crop due to its importance in food, feed, specialty maize starch etc.

Production has increased at CAGR 5.5% from 2019-20 to 2023-24. India ranks 4th in terms of global maize acreage and 6th in production. Rising domestic demand for industrial usage and poultry feed may outstrip the domestic maize production in the near future.

Area, Production and Yield of Maize Crop, India, FY2020 – FY2024E

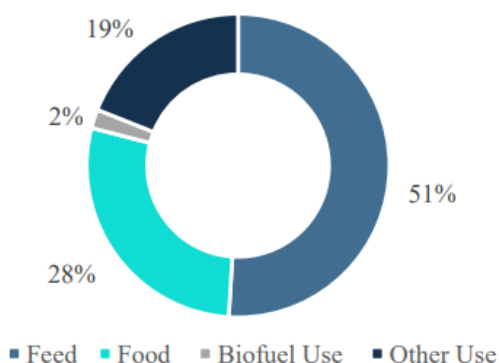


Note: Figures for 2023-24 are estimates

Maize Consumption Trend in India -

Domestic demand from feed manufacturers and the starch industry supports competitive prices. This encouraged farmers to cultivate maize, with plantings rising above 10.1 million hectares in MY 2022/2023. By 2032, the share of maize used in animal nutrition is expected to increase to about 54% by 2032. If the Indian Government continues to implement positive policy changes with respect to ethanol blending, the usage of maize for biofuel production is also expected to increase further

Maize Consumption in India (2022)



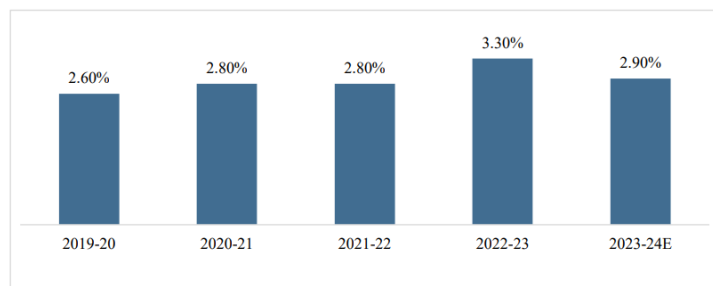
Global Maize Consumption Overview -

Overview of Maize Consumption Trend in India-

Global maize consumption is projected to increase by 1.2% per annum as per OECD-FAO Agriculture outlook compared to 2.3% per annum in the previous decade. This increase is principally driven by higher incomes that translate into higher feed demand, which accounts for the largest share of total utilisation, rising from 57% in the base period to around 59% by 2032. 52% of the increase in feed consumption will be in Asian countries (more than half of this in China) due to fast expanding livestock and poultry sectors. Feed demand globally is expected to rise by 110 MT to 794 MT, mainly in China, the United States, Brazil, Indonesia, Argentina, India, Vietnam, and Egypt.

Consumption in Southeast Asia will increase due to its fast-expanding poultry industry. The use of maize as food is expected to increase primarily in Sub-Saharan Africa where population growth is strong. White maize will remain an important staple, accounting for about a quarter of total caloric intake. Growth in maize consumption as food in African countries is expected at about 2.7% p.a. on average

Production Contribution in Global Maize Production, India, FY2020 – FY2024E (%)



Note: Figures for 2023-24 are estimates.

Globally, maize use for biofuel production is expected to increase at a much slower rate than in the past two decades as national ethanol markets of key producers are constrained by biofuel policies. Brazil and USA together account for more than 80% of the increase.

Key Management -

Key Management Persons Name -	Gouthamchand Sohanlal Chowdhary
Age	66
Designation and No. of years of experience	Promoter, Chairman and Managing Director, 38+ Years of experience
Qualification	Schooling from Monfort School Yercaud, Tamil Nadu
Roles and Responsibility	Overseeing the strategic growth initiatives and expansion plans.
Other Directorships	Sambhav Starch Products Private Limited, The All India Starch Manufacturers Association Private Limited

Key Management Persons Name -	Sambhav Gautam Chowdhary
Age	41
Designation and No. of years of experience	Promoter, and Joint Managing Director, 13+ years of experience
Qualification	Bachelor's degree in engineering
Roles and Responsibility	Day to day operations and expansion plans of the Company.
Other Directorships	Sambhav Starch Products Private Limited, Sanstar Gems & Jewels Private Limited

Key Management Persons Name -	Shreyans Gautam Chowdhary
Age	39
Designation and No. of years of experience	Promoters, and Joint Managing Director, 13+ years of experience
Qualification	Bachelor's degree in engineering and master's degree of Science in Management
Roles and Responsibility	Management of commercial and sales-related aspects
Other Directorships	Sambhav Starch Products Private Limited, Sanstar Gems & Jewels Private Limited

Key Management Persons Name -	Sejal Ronak Agrawa
Age	34
Designation and No. of years of experience	Independent Director, 13+ years of experience
Qualification	Bachelor's and master's degrees in commerce, and Chartered Accountant
Roles and Responsibility	-
Other Directorships	Corporate Professionals Valuation Services Private Limited, etc

Key Management Persons Name -	Atul Agrawal
Age	67
Designation and No. of years of experience	Independent Director, 17+ years of experience
Qualification	Bachelor's degree in commerce, and certified associate of the Indian Institute of Bankers.
Roles and Responsibility	-
Other Directorships	-

Key Management Persons Name -	Aniket Sunil Talati
Age	38
Designation and No. of years of experience	Independent Director
Qualification	Fellow member of the Institute of Chartered Accountants of India
Roles and Responsibility	-
Other Directorships	Partner at M/s. Talati & Talati LLP, Institute of Social Auditors of India, etc

FINANCIAL SNAPSHOT
Statement of Profit and Loss

Amt in Cr.

Particulars	FY 22	FY 23	FY 24
Revenue from Operations	504.40	1,205.07	1,067.27
Other Income	0.37	4.60	14.41
Total Income	504.77	1,209.67	1,081.68
Expenses			
Purchase of stock-in-trade	-	1.16	-
Cost of Material Consumed	391.52	958.86	832.93
Changes in Inventories of WIP, Finished Goods & Stock in Trade	-4.44	2.48	-6.68
Employee benefits	10.48	19.33	21.96
Finance Cost	9.09	9.81	10.74
Depreciation and Amortization expense	9.02	11.85	12.09
Other expenses	67.13	150.79	120.92
Total Expenses	482.78	1,154.28	991.96
Earnings Before Interest, Taxes, Depreciation & Amortization	39.72	72.45	98.14
EBITDA Margin	7.87%	6.01%	9.20%
Profit/(Loss) before tax	21.98	55.39	89.72
Tax Expense			
Current tax	5.68	5.38	16.69
Deferred Tax Expenses	0.38	8.21	6.27
Total Tax Expense	6.06	13.58	22.96
Profit/(Loss) for the year	15.92	41.80	66.77
Net Profit Margin	3.15%	3.46%	6.17%

Statement of Equity, Assets and Liabilities

Amt in Cr.

Particulars	FY 22	FY 23	FY 24
EQUITY AND LIABILITIES			
1. Shareholders' funds			
Share Capital	29.50	28.09	28.09
Other Equity	55.71	159.04	225.67
Non-Controlling Interest			
Total Equity	85.21	187.13	253.76
2. Non-current liabilities			
Long Term Borrowings	57.54	34.28	30.92
Other financial liabilities	0.05	0.02	-
Provisions	0.04	0.08	-
Deferred tax liabilities	10.96	25.52	31.75
Total Non-current liabilities	68.58	59.91	62.67
3. Current liabilities			
Financial Liabilities			
(i) Short Term Borrowings	27.68	77.42	96.72
(ii) Trade Payables	-	-	-
(a) Outstanding Dues to Micro Enterprise & Small Enterprises	0.55	1.28	0.64
(b) Outstanding Dues to other than Micro Enterprise & Small Enterprises	17.50	29.00	95.34
(iii) Other Financial Liabilities	0.26	2.77	1.61
Other current liabilities	4.44	6.13	3.48
Provisions	2.47	3.70	4.57
Current Tax Liabilities	0.76	1.02	8.80
Total Current liabilities	53.66	121.32	211.14
Total Liabilities	122.24	181.22	273.81

Particulars	FY 22	FY 23	FY 24
Total Equity and Liabilities	207.45	368.35	527.57
ASSETS			
1. Non-current assets			
Property, Plant and Equipment	133.14	195.75	202.13
Capital Work-in-progress	3.27	0.91	20.47
Financial Assets	-	-	-
(i) Investments	-	0.15	0.16
(ii) Other financial assets	0.17	2.08	1.30
Total non-current assets	136.57	198.88	224.05
2. Current assets			
Investments			
Inventories	12.65	26.53	114.03
Financial Assets	-	-	-
(i) Trade receivables	40.22	91.20	117.51
(ii) Cash and cash equivalents	0.64	6.27	3.18
(iii) Bank balances other than cash and cash equivalents	1.17	0.38	1.98
(iv) Other current financial assets	0.01	0.41	0.57
Current Tax Assets	-	0.56	-
Other current assets	16.19	44.12	66.25
Total Current assets	70.88	169.47	303.52
Total Assets	207.45	368.35	527.57

Cash Flow Statement

Amt in Cr.

Particulars	FY 22	FY 23	FY 24
Net Cash Flow from Operating Activities	29.71	-6.02	28.60
Net Cash Flow from Investing Activities	-4.50	-71.39	-36.89
Net Cash Flow from Financing Activities	-25.03	83.04	5.20

Key Ratios

<u>Per Share Data</u>	FY 22	FY 23	FY24	<u>Valuation Ratios (x)</u>	FY 22	FY 23	FY24
Diluted EPS	1.08	2.98	4.75	EV/EBITDA	4.25	4.03	3.83
BV per share	6.07	13.32	18.07	Market Cap / Sales	3.43	1.44	1.62
<u>Operating Ratios</u>				P/E	87.96	31.88	20.00
EBITDA Margins	7.87%	6.01%	9.20%	Price to Book Value	15.66	7.13	5.26
PAT Margins	3.15%	3.46%	6.17%	<u>Solvency Ratios</u>			
Inventory days	9.15	8.04	39.00	Debt / Equity	1.00	0.60	0.50
Debtor days	29.11	27.62	40.19	Current Ratio	1.32	1.40	1.44
Creditor days	17.10	11.48	38.40	Quick Ratio	1.09	1.18	0.90
<u>Return Ratios</u>				Asset Turnover	2.43	3.27	2.02
RoCE	19.96%	24.53%	27.19%	Interest Coverage Ratio	3.38	5.62	8.80
RoE	18.68%	22.34%	26.31%				

LEAD MANAGER TRACK RECORD -

The lead manager to the issue is Pantomath Capital Advisors Pvt Ltd. A table has been set below highlighting the details of the IPO of the last 10 companies handled by the Lead Manager in recent times:

Pantomath Capital Advisors Pvt Ltd -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Kronox Lab Sciences Limited	130.15	136.00	Jun 10, 2024	152.13
2.	SAR Televenture Limited	24.75	55.00	Nov 08, 2023	231.40
3.	Transteel Seating Technologies Limited	49.98	70.00	Nov 06, 2023	70.15
4.	Plaza Wires Limited	71.28	54.00	Oct 12, 2023	84.41
5.	Vishnu Prakash R Punglia Limited	308.88	99.00	Sep 05, 2023	202.03
6.	Aeroflex Industries Limited	351.00	108.00	Aug 31, 2023	151.43
7.	Urban Enviro Waste Management Limited	11.42	100.00	Jun 22, 2023	394.95
8.	Sah Polymers Limited	66.30	65.00	Jan 12, 2023	86.63
9.	AB Cotspin India Limited	10.09	35.00	Jan 11, 2022	217.00
10.	Exxaro Tiles Limited	161.09	120.00	Aug 16, 2021	89.41

*CMP for the above-mentioned companies is taken as of 15th July 2024.

As per the offer document, out of the mentioned 10 mandates, all have opened at premiums. The company has had 11 mandates in the past three years including the current Year.

Recommendation -

The company has been in the industry since 1982 and has vast experience in the industry. The management overview of the company is satisfactory.

The P/E on a post-IPO and annualised basis is around 25.93 times which makes it fully priced by looking at the performance of the company and sector. The Sector P/E is 35.66 times.

Sanstar operates in the maize-based speciality products industry, which is experiencing growth and offers profitable opportunities. The management team of the company is both well-educated and experienced, indicating strong leadership. The company has seen a revenue decrease in FY 2024 due to planned boiler maintenance at its Kutch facility, this should not be seen as alarming, as it temporarily impacted capacity utilization and sales volume during FY2024 and should not be recurring. The company is expanding into consumer-focused value products such as Custard Powder, Maize Flour, Icing Sugar, and Glucose Energy Powder, which are projected to enhance future revenue.

The company is also utilizing net proceeds for the expansion of its Dhule facility, aiming to support future growth. In comparison to its peers, the company operates with favourable margins and maintains solid solvency ratios. These factors suggest that the company is well-positioned for continued growth and profitability in the long term. Thus, we recommend **APPLY** for this IPO.

Disclaimer

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