Sanstar Limited

June 07, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Short-term bank facilities	11.25 (Enhanced from 10.00)	CARE A3+	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE BB+; Stable / CARE A4+;
Long-term / short-term bank facilities	95.00 (Enhanced from 40.00)	CARE BBB; Stable / CARE A3+	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE BB+; Stable / CARE A4+;
Short-term bank facilities	7.50	CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

CARE Ratings has removed INC status from the bank facilities of Sanstar Limited (SAL) considering receipt of adequate information to undertake the company's review.

Rationale and key rating drivers

Ratings assigned to bank facilities of SAL derive strength from its experienced promoters, established track record in the maize starch industry, moderately diverse product portfolio having wide industry application and diversified clientele. Ratings also factor in its moderate scale of operations and profitability, which improved in FY24 (FY refers to April 01 to March 31), comfortable capital structure, and moderate debt coverage indicators.

However, ratings continue to remain constrained considering project risk associated with large sized expansion project, profitability susceptible to volatile commodity prices and presence in the competitive agro-based industry with large size established players.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly increasing scale of operation with total operating income (TOI) of over ₹1400 crore with profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 8% on sustained basis.
- Augmenting net worth base and consequently improving capital structure though fund raising from planned IPO.
- Successfully completing ongoing capex.

Negative factors

- Declining profitability with PBILDT margin below 6%, on a sustained basis.
- Increasing total debt with overall gearing above 1x or total debt to PBILDT exceeding 5x on sustained basis.
- Significantly delaying or cost overrun in planned capex, impacting capital structure.

Analytical approach: Standalone (Revised from combined)

The analytical approach has been changed from Combined to Standalone considering merger of Sanstar Bio-Polymers Limited (SBPL) with SAL per NCLT order dated November 23, 2023, effective from April 01, 2022. Earlier, combined analytical view has been considered for credit risk assessment of SAL and SBPL, as both companies were closely held with significant ownership and control resting with family of key promoters and operating in similar line of business.

Outlook: Stable

The "Stable" outlook reflects CARE Ratings Limited's (CARE Ratings) expectation of SAL to sustain business in the medium term considering its established presence in maize starch industry and established procurement and distribution network.

Detailed description of key rating drivers:

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

Key strengths

Established track record of operations with moderately diverse product portfolio having wide industry applications
SAL is one of the oldest players in the starch industry, which was initially engaged in trading in Tapioca starch and later ventured in manufacturing maize-based starch and its derivatives. It has nearly 19 years of track record in manufacturing operations and operates from two plants; one in Dhule, Maharashtra, with an annual capacity of 247,500 metric tons, and the other in Kutch, Gujarat, with an annual capacity of 115,500 metric tons (overall capacity of 1100 Tons per day). Its product-base is moderately diversified with different types of starches contributing nearly 60-65% in TOI followed by processed foods (liquid glucose, maltodextrin, dextrose monohydrate) contributing 5-8% and balance from byproducts such as gluten, and germ among others. SAL has established a network of maize procurement contacts throughout India, combined with the company's strategically located plant in Shirpur, Dhule - a key maize hub in Maharashtra – that ensures easy raw material availability. Capacity utilisation largely remained stable for FY24 compared to FY23.

Diversified clientele base across diverse industries
SAL has diverse clientele with top 10 customers forming 23% of total TOI for FY24 as against 30% for FY23. These customers are from diverse industries, namely, textiles, paper, pharmaceutical, food, adhesives, animal nutrition and others, which insulates SAL from the risk associated with cyclicality in respective industries. SAL derives revenue from domestic and export markets, with exports forming 36% of TOI in FY24.

Moderate scale of operations and profitability, which improved in FY24
SAL operates at a moderate scale in Maize processing industry marked by TOI of ₹1114.92 crore in FY24 as compared to ₹1263.50 crore in FY23 which declined considering decline in raw material prices of maize and consequent sales realization of maize starch and decrease in sales volume of Starch (Primary product) by around ~7.20% in FY24 over FY23. However, PBILDT margins have improved significantly on back of better realization in processed food segment along-with reduction in power and fuel cost in FY24 considering successful completion of the Solar Plant and Biofuel Plant and low coal prices. Going forward, CARE Ratings expects profitability to remain at a moderate level, considering increasing competition in the industry.

Comfortable capital structure and moderate debt coverage indicators
Steady growth in SAL's net worth base due to accretion of the profits in the last three years. This resulted in the company's comfortable capital structure. It is evident by stable TOL/TNW at 1.15x as on March 31, 2024, as compared to 1.06x as on March 31, 2023. Overall gearing largely remained stable below unity at 0.87x as on March 31, 2024, as against 0.74x as on March 31, 2023. Going forward, CARE Ratings expects the company to maintain its near unity overall gearing despite debt funded capex.
Debt coverage indicators also remained moderate marked by TD/GCA of 2.22x for year-ended March 31, 2024, and interest coverage of 9.59x as on March 31, 2024. This would improve significantly post raising of funds through the proposed IPO.

Experienced promoters
SAL is promoted by Chowdhary family, led by Gautam Chowdhary, Managing Director, who has experience of more than three decades in the industry. He is assisted by his sons Sambhav Chaudhary, Director and Promoter of SAL, who looks after the plant and overall functioning of the company and Shreyans Chaudhary, Director and Promoter, who looks after finance and marketing function of the company. They are well supported by qualified management personnel.

Key weaknesses

Project risk emanating from large sized planned capex
SAL is undertaking an expansion project of increasing its production capacity from 1,100 TPD (tons per day) to 2,100 TPD, which is estimated to be completed by July 2025 with project cost of ₹201.55 crore. The company has taken loan of ₹150 crore for this (which is proposed to be replaced by IPO proceeds). The expansion will take place within existing plant premises of Shirpur facility. The project is in nascent stage and ₹19.85 crore has been incurred till May 16, 2024. There is project implementation risk considering its large size, high project debt equity ratio and its nascent stage. There is saleability risk considering the competitive nature of the industry and ongoing expansion by major players in the industry.

Profitability susceptible to volatile raw material price
SAL uses maize as the key raw material, which accounted for ~75-80% of total cost of sales for the last 3-4 years. Maize being an agriculture input; SAL's operations are vulnerable to inherent risks associated with Agri-based inputs prices. Although the prices of various Agri commodities remained fluctuating over the years, it exhibited an increasing trend mainly due to heavy domestic and export demand. Raw material prices are linked to agricultural output, which in turn, is exposed to factors such as vagaries of monsoon, acreage, crop yield level, and global demand-supply mismatches.

Competitive industry scenario and planned capacity addition of major players
Maize processing industry is highly competitive with presence of few large players such as Roquette India Private Limited, Gujarat Ambuja Exports Limited, The Sukhjit Starch and Chemicals Limited and medium sized players such as Gulshan Polyols Limited, Bluecraft Agro Private Limited, SAL, Sayaji Industries Limited, Sahayadri Starch & Industries Private Limited and several other unorganised players and commoditised nature of product limits pricing flexibility and bargaining power with customers. Large players have significant presence in value-added products of maize and command a wide product basket. Significant capacity addition by major players, which are coming online in next one-two years may further increase competition in the industry.

Liquidity: Adequate

SAL's liquidity remains adequate, marked by moderate current ratio, healthy cash flow from operations (CFO), moderate working capital limit utilisation and healthy GCA levels against its moderate debt repayment obligations. The company has achieved ₹85.13 crore of GCA in FY24 and envisaged to achieve ₹70-130 crore in the near-to-medium term as against a debt repayment obligation of ₹16-30 crore. Cash and liquid investments as on March 31, 2024, stood at ₹3.16 crore. CC utilisation for 12-months ending March 31, 2024, was at moderate level with maximum utilisation above 90% in peak procurement season. The current ratio stood moderate at 1.41x as on March 31, 2024, as against 1.38x as on March 31, 2023. Cashflow from operating activities remained positive for the last five years and stood at ₹22.87 crore as on March 31, 2024.

Applicable criteria

[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]
[Short Term Instruments]

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Fast-moving consumer goods	Fast-moving consumer goods	Food products	Other food products

SAL is a public limited company incorporated in February 1982, headquartered in Ahmedabad, Gujarat. SAL is engaged in manufacturing maize-based products and its derivates; maize starch, dextrin, modified starches, liquid glucose, high maltose maize syrup, maltodextrin, dextrose monohydrate, gluten, germ, and bran among others. Products find application in textiles, paper, pharmaceutical, food, adhesives, animal nutrition and other industries. Manufacturing facilities are in Gujarat and Maharashtra having a combined capacity of 1,100 TPD.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	1,263.50	1,114.92
PBILDT	75.41	102.96
PAT	41.81	66.77
Overall gearing (times)	0.74	0.87
Interest coverage (times)	7.69	9.59

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
-As SBPL merged with SAL, financials for FY23 pertains to merged financial and going forward FY24 onwards, standalone financials will be prepared.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-Forward Contract		-	-	-	11.25	CARE A3+
Fund-based - LT/ ST-Working Capital Limits		-	-	-	95.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Bank Guarantee		-	-	-	7.50	CARE A3+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - ST-Forward Contract	ST	11.25	CARE A3+	-	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (26-Mar-24)	1)CARE BBB; Stable / CARE A3+ (16-Feb-23)	-
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST	95.00	CARE BBB; Stable / CARE A3+	-	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (26-Mar-24)	1)CARE BBB; Stable / CARE A3+ (16-Feb-23)	-
3	Non-fund-based - ST-Bank Guarantee	ST	7.50	CARE A3+				

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Working Capital Limits	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Forward Contract	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Akhil Goyal Director **CARE Ratings Limited** Phone: +91 - 22- 6754 3590 E-mail: akhil.goyal@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Darshan Shah Assistant Director **CARE Ratings Limited** Phone: +91 - 22 - 6754 3408 E-mail: Darshan.shah@careedge.in Abhijeet Dhakane Lead Analyst **CARE Ratings Limited** E-mail: Abhijeet.Dhakane@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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