Sanstar Limited (Revised)

February 16, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	50.00	CARE BBB; Stable / CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Sanstar Group (SG) which consists of Sanstar Limited (SL) and Sanstar Bio-Polymers Limited (SBPL), continues to derive strength from its experienced promoters along with established track record of around 4 decades in corn starch industry, Stable industry outlook, moderately diverse product portfolio and diversified clientele base across diverse industries. The ratings also factored the Substantial growth in scale of operations in FY22 and 9MFY23, comfortable capital structure, comfortable debt coverage indicators and improved operating cycle in FY22. The rating further derives strength from the successful completion of Solar Plant and Biofuel plant in current year and is likely to result in substantial reduction in Power cost for Sanstar Limited. The ratings, however, continue to remain constrained on account of its Susceptibility of the profitability to volatile raw material price and Competitive industry scenario with planned capacity addition of the major players. The ratings are further constrained due to its Presence in a competitive agro-processing industry.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- ✓ Significant increase in scale of operation with total operating income (TOI) of over Rs.1400 crore
- ✓ Improvement in profitability with profit before interest, lease, depreciation, and tax (PBILDT) margin above 8% on sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- × Decline in profitability with PBILDT margin below 4.50% on a sustained basis.
- × Increase in total debt leading adj. overall gearing above 1.20x or total debt to PBILDT exceeding 5x on sustained basis

Analytical approach: Combined

For arriving at the rating, CARE has combined the business and financial risk profile of SL and SBPL, as both the entities in the group are closely held with significant ownership and control resting with family members of key promoters and similar line of business. Also, historically, group has demonstrated its intention to support the group entities resulting in fungibility of cash flows. Combined financials have been arrived by excluding intergroup transactions for FY22 and similarly expected intergroup transactions have been excluded from projections.

Key rating strengths

Experienced promoters and established track record of over four decades in the starch industry:

SG is one of the oldest players in the starch industry, with having past experience of trading in Tapioca starch prior to getting into manufacturing of Maize based starch. SG's promoter Mr Gautam Chowdhary (MD) has experience of more than 35 years in the industry. Mr Gautam is assisted by his two sons. Mr. Sambhav Chaudhary who is a Director and Promoter of SG and looks after the Plant as well as overall functioning of the company and Mr. Shreyans Chaudhary who is also Director and Promoter and looks after finance function of the company along with marketing activities. Both the sons are B.E (Chemical) and MBA by qualification and hold directorship in SG. As result of long-standing experience of promoters in the industry the company has developed established relations with large number of suppliers across the country, leading to smooth flow of operations. Moreover, with its plant Plant at Shirpur, Dhule, company has no shortage for acquiring the maize as Maharashtra being maize hub. Also, the other plant SBPL with its presence at Kutch, Gujarat has access to export market owing to nearness to port.

Stable industry outlook on the back of steady demand from the key end user industries:

The Indian starch and derivatives market scenario has witnessed significant changes in the last few years. Starch processing is one of the top five food processing industries in India. Maize is the major raw material used to produce starch and its other value-added derivatives. Of the total maize produced in India, only 10-12% is being consumed by the starch industry. Poultry and animal feed industry remains the top consumer of the maize. The major users of starch and its derivatives are Food, Textile, Paper and Packaging, Paints, Aluminium and Pharmaceutical sectors. All these industries are expected to have stable

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

demand in near to medium term. As per fourth advance estimates released by the Ministry of Agriculture for the Kharif crop, total maize production for FY22 is expected at 23.10 million ton achieving a y-o-y growth of 2.1% (22.63 million ton for kharif 2021-22).

Moderately diverse product portfolio with Diversified clientele base across diverse industries:
Sanstar Group has moderately diversified product basket which includes maize starch and its various derivatives such as Germ, Gluten and Barn. Its recovery rate is around 65% i.e., out of current installed capacity of 1000 TPD. The group derives revenue from both domestic as well as exports. Also, SL has reputed clientele like Suguna Foods, Cargill India Pvt Ltd etc.

Successful completion of the Solar and Biofuel plants to result in lower Power and fuel cost for Sanstar Limited:
During FY23, Sanstar Limited had undertaken the projects with an intention to cut the electricity cost, which is one of the major cost components after raw material cost, by constructing a Bio-Gas engine and Solar Power Plant. The Solar plant of 3.5 MW has already commenced its operations in Dec 2022. Solar plant has been set up on 5 to 10 acres of land. The total cost incurred was Rs.15.15 crore and 75% of which was debt funded and while the balance was funded out of internal accruals. The work on the Biofuel of 1.6 MW is fully complete and the same is expected to commence operations in Feb 2023. These projects are expected to result in improving profitability margins. However, stabilisation of operation and subsequent accrual of cost benefits remains to be seen, hence remain a key monitorable.

Substantial Growth in scale of operation led by increased volume with stable PBILDT margins:
On a Combined basis, TOI of Sanstar Group grew by around 66.15% during FY22 on y-o-y basis on the back of improved demand post Covid-19 pandemic. Total maize grinding of Sanstar Limited grew by around 32.61% on y-oy basis to 1,77,922 MT during FY22 on the back of strong demand from the end user industries like textile, paper pharmaceuticals, food products leading to increase in the capacity utilization across the product categories. PBILDT margin of Sanstar Group declined to 5.81% during FY22 as against 7.61% in FY21,on y-o-y basis. However. It is to be noted that the revenue from operations included an amount from an SGST rebate of Rs.9 crore in FY21, while the FY22 does not include the SGST rebate amounting to Rs.15 crore. Furthermore, during H1FY23 (Prov.), the margins were at 4.90%. Going forward, the margins are expected to improve from current level on the back of continued stable demand, benefit from the Solar Plant and pending receipt of SGST rebate.

Comfortable capital structure and debt coverage indicators:
Capital structure of SG had shown improvement over last three years with steady growth in its net-worth base with steady accretion of the profit to the net-worth base and decline in total debt level as on March 31, 2022. Total debt of SG declined from Rs.160.79 crore as on March 31, 2021, to Rs.125.36 crore as on March 31, 2022, due to decline in the working capital borrowing and repayment of term loans. The overall gearing of SG on a combined basis improved to 0.65x as on March 31, 2022, as against 0.98x on March 31, 2021. However, there was an increase in the creditors level leading to moderate TOL/TNW at 1.17x as on March 31, 2022, as compared with 1.63x as on March 31, 2021. Also, TD/GCA improved from 3.79x in FY21 to 2.42x in FY22 and PBILDT interest coverage improved from 2.84x in FY21 to 4.38x in FY22. Despite increase in debt levels owing to recent expansion, the overall gearing is expected to improve from current levels on the back of expected improvement in networth led by accretion of profits.

Improved operating cycle in FY22:
On a combined basis, operating cycle of SG remained strong at 22 days in FY22 (FY21: 33 days) and is expected to stay below 30 days. It generally keeps maize inventory of 20-30 days. SG generally avails 30-90 days of credit periods from its creditors. Debtors' days remained low with over 98% of receivables being in the below 6 months category and, SG usually provides credit of not more than 60 days.

Key rating weaknesses
Susceptibility of the profitability to volatile raw material price:
Maize is the key raw materials used by SG which accounted for ~75-80% of total cost of sales. Maize being the agriculture-based input; the operations of SG are vulnerable to inherent risks associated with agri-based inputs prices. Over the years, although the prices of various Agri-commodities remained fluctuating, maize prices have exhibited an increasing trend mainly due to heavy domestic and export demand. Further, the prices of raw materials are linked to agricultural output, which in turn, is exposed to factors such as vagaries of the monsoon, acreage, crop yield level and global demand-supply mismatches.

Presence in a competitive Agro-processing industry with competition from both organized as well as unorganized players:
Maize processing industry is highly competitive with presence of few large players like Roquette India Pvt Ltd , Gujarat Ambuja Exports Ltd , The Sukhjit Starch and Chemicals Ltd and medium sized players like Gulshan Polyols Limited , Sanstar Group with

a total capacity of 1000 TPD, Sayaji Industries Limited with a total 850 TPD , Sahayadri Starch & Industries Private Limited and large no. of unorganized players these along with commoditized nature of product limits the pricing flexibility and bargaining power with customers. However, SG is among the few players having presence across starch value chain including value added products.

Liquidity: Adequate

SG has adequate liquidity marked by modest cash accruals against its debt repayment obligation. SG is expected to earn GCA of Rs.55 to Rs.60 crore (Including the GST rebate to the tune of Rs.15 crore per year).as compared to debt repayment obligation of Rs.20.78 crore for FY24. On a standalone basis, average monthly fund based working capital utilization of SBPL remained moderate at 67.55% for past 12 months ended November 30, 2022 and average monthly fund based working capital utilization of SL remained low at 61% for past 12 months ended November 30, 2022. SG had cash and cash equivalents of Rs.2.29 crore as on March 31, 2022.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Other Agricultural Products

Sanstar Group (SG) comprises of two entities, namelySL and SBPL. The group is engaged in manufacturing of Maize Starches and its by-products such as Gluten, Germ and Bran. The group is also in to trading of processed food. The Group is promoted by Mr. Gautam Choudhary, who has an experience of over 3 decades. Prior to manufacturing promoters were in to trading of Tapioca starch. The products find application in Textiles, Paper, Pharmaceutical, Food, Adhesives & many other industries.

SBPL commenced its operation in the year 2005, is in to manufacturing of Maize-based starch and its by-products with a total installed capacity of 400 tones crushed per day (TPD) located at Kutch, Gujarat.

Brief Financials (Standalone) (₹ crore)	FY21 (A)	FY22 (A)	9MFY23(UA)
Total operating income	276.49	439.82	391.85
PBILDT	6.72	15.71	NA
PAT	2.81	9.44	NA
Overall gearing (times)	1.09	0.63	NA
Interest coverage (times)	1.94	4.31	NA

A: Audited; Unaudited, NA: Not available

SL commenced its operation in 2017-18. SL is engaged in manufacturing of Maize-based starch and its by-products with total installed capacity of 600 tones crushed per day (TPD), the plant is located at Shirpur, Dhule in Maharashtra.

Brief Financials (Standalone) (₹ crore)	FY21 (A)	FY22 (A)	9MFY23(UA)
Total operating income	307.33	519.87	558.36
PBILDT	27.20	40.01	NA
PAT	14.07	16.35	NA
Overall gearing (times)	1.45	0.99	NA
Interest coverage (times)	2.27	4.40	NA

A: Audited; Unaudited, NA: Not available

Brief Financials (Combined) (₹ crore)	FY21 (UA)	FY22 (UA)	9MFY23(UA)
Total operating income	577.04	958.73	950.21**
PBILDT	43.90	55.72	NA
PAT	16.88	25.79	NA
Overall gearing (times)	0.98	0.65	NA
Interest coverage (times)	2.84	4.38	NA

UA: Unaudited, NA: Not available
**The financials do not include the exclusion of inter-party transactions; the financials are re-classified as per CARE standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated facilities: Detailed explanation of the covenants of the rated facilities is given in Annexure-3

Complexity level of the various facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Facility	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
Fund-based - LT/ ST-Working Capital Limits		-	-	-	10.00	CARE BBB; Stable / CARE A3+
Fund-based - LT/ ST-Working Capital Limits		-	-	-	40.00	CARE BBB; Stable / CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	10.00	CARE BBB; Stable / CARE A3+				
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	40.00	CARE BBB; Stable / CARE A3+				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated facilities: NA

Annexure-4: Complexity level of the facility rated

Sr. No.	Name of the Facility	Complexity Level
1	Fund-based - LT/ ST-Working Capital Limits	Simple

Annexure-5: Lender details

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

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

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About us:

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