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Q3FY23 result review,
reco, earnings and
target price revision

Consumer care ingredients

Target price: Rs2,555

Earnings revision

(%)	FY23E	FY24E
Sales	↓ 2.3	↓ 2.9
EBITDA	↑ 9.9	↑ 5.6
EPS	↑ 12.4	↑ 8.1

Target price revision

Rs2,555 from 2,735

Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	70.9	70.9	70.9
Institutional investors	15.6	15.6	15.6
MFs and others	13.0	12.1	12.2
FIs / Banks	0.0	0.0	0.0
Insurance	0.1	0.1	0.1
FII	2.5	3.4	3.3
Others	13.4	13.5	13.5

Source: BSE India

ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

Research Analysts:

Sanjesh Jain

sanjesh.jain@icicisecurities.com
+91 22 6807 7153

Akash Kumar

akash.kumar@icicisecurities.com
+91 22 6807 7637

INDIA

 **ICICI Securities**

Galaxy Surfactants

ADD

Upgrade from Hold

EBITDA growth to sustain in FY24

Rs2,430

Galaxy Surfactants' (GSL) Q3FY23 EBITDA/kg at Rs26.4 benefited from exports incentive in Egypt of Rs200mn; better product mix and sourcing efficiencies. GSL has done Rs25 EBITDA/kg in 9MFY23 vs historical Rs17-19, despite which it has maintained traditional framework of growing volumes at 6-8% pa and EBITDA higher than volumes. This implies GSL anticipates rebasing of EBITDA/kg driven by better product mix and retention of some sourcing efficiencies. Volume growth was hurt by AMET situation (inflation in Egypt and Turkey) where GSL is hitting a favourable base, and had a strong QoQ growth which means volumes should pick-up in FY24. Sales volume in Europe and China is expected to bounce back. We have increased our EPS by 12.4% / 8.1% for FY23/FY24E, respectively. However, we cut our target price to Rs2,555 (from Rs2,735) as we rollover valuations to FY25E, but reduce PE multiple to 22x (from 28x FY24E). We upgrade our rating to ADD (from Hold). Key risks: 1) Significant drop in EBITDA/kg and 2) continued weakness in Europe / China market.

- **Volumes up 0.6% YoY.** GSL's revenue rose 16.3% YoY to Rs11bn driven by 15.6% growth in realisation to Rs185/kg while volumes rose 0.6% to 58kte due to weak demand in AMET, Europe and China. AMET is fighting inflationary pressures due to local currency depreciation (Egypt and Turkey). Europe and China had headwinds in demand due to local factors. AMET and RoW volumes were down 6.4% / 8.9% YoY while India volumes rose 12.2%. Performance product volumes rose 5.9% YoY to 39kte, but specialty care volumes dipped 8.7% YoY to 19kte. AMET has shown 11% QoQ growth, and from Q4FY23, GSL will hit a favourable base. Europe and China are expected to bounce back with normalisation of inflation / covid situation. India is expected to remain strong with underlying demand being stable. Inventory situation has normalised across the region except for US. GSL expects volume growth to return to 6-8% FY24 onwards.
- **Gross profit per kg was Rs58.5, up 33% YoY (+4.6% QoQ).** Gross profit was up 33.8% YoY to Rs3.4bn, and had gains from exports rebate of Rs200mn (Rs230mn for 9MFY23) in Egypt which is lumpy. Gross profit margin was 31.6% (up 470bps QoQ), and gross profit per kg was Rs58.5 vs to Rs56 in Q2FY23. However, it is much higher than the normal range of Rs45-50/kg due to better product mix (lower AMET mix), easing supply issues and sourcing efficiencies. EBITDA rose 101.6% YoY / 17% QoQ to Rs1.5bn. EBITDA/kg was Rs26.4 (vs Rs13.2 in Q3FY22 and Rs22.2 in Q2FY23). Net profit grew to Rs1.1bn, up 132.7% YoY. Egypt and US subsidiaries have performed better with EBITDA margin at 16% vs standalone at 13.5%.
- **Commitment of volume < EBITDA < PAT on growth stays.** Despite high EBITDA/kg of Rs25 for 9MFY23, company believes it will continue to deliver 6-8% volume growth. EBITDA growth is likely to be higher than volumes and PAT will grow the fastest. RoCE stands at 22%. Company believes it will be able to hold to EBITDA growth even as margins currently are at higher levels. This will come from efficient sourcing of key raw-materials, improving product mix and in-built strength of business model.

Market Cap	Rs86bn/US\$1bn
Bloomberg	GALSURF IN
Shares Outstanding (mn)	35.5
52-week Range (Rs)	3396/2316
Free Float (%)	29.1
FII (%)	3.3
Daily Volume (US\$'000)	905
Absolute Return 3m (%)	(14.8)
Absolute Return 12m (%)	(15.7)
Sensex Return 3m (%)	(2.1)
Sensex Return 12m (%)	5.3

Year to March	FY22	FY23E	FY24E	FY25E
Revenue (Rs bn)	36.9	44.4	38.6	38.1
Net Income (Rs bn)	2.6	3.6	3.7	4.1
EPS (Rs)	74.1	102.2	105.6	116.1
% Chg YoY	(13.0)	37.9	3.3	10.0
P/E (x)	32.8	23.8	23.0	20.9
CEPS (Rs)	94.2	125.5	132.4	145.7
EV/E (x)	22.2	15.4	14.8	13.3
Dividend Yield (%)	0.7	1.2	1.5	1.9
RoCE pre-tax (%)	17.0	22.1	21.7	21.1
RoE (%)	18.3	21.3	19.2	18.7

Please refer to important disclosures at the end of this report

Table 1: Galaxy Surfactants – consolidated financials

(Rs mn, year ending March 31)

Rs mn	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	QoQ (%)	YoY (%)
Revenue	9,291	10,529	11,589	12,316	10,803	(12.3)	16.3
Cost of Goods sold	6,741	7,058	8,018	9,005	7,391	(17.9)	9.6
Gross profit	2,550	3,472	3,571	3,312	3,412	3.0	33.8
Gross profit margin (%)	27.4	33.0	30.8	26.9	31.6		
Employee cost	516	583	619	627	600	(4.4)	16.3
Other expenses	1,271	1,439	1,472	1,368	1,271	(7.0)	0.1
Total expenses	1,786	2,022	2,091	1,995	1,871	(6.2)	4.8
EBITDA	764	1,450	1,480	1,317	1,541	17.0	101.6
EBITDA margin (%)	8.2	13.8	12.8	10.7	14.3		
Depreciation	177	184	189	205	216	5.3	21.5
EBIT	587	1,266	1,291	1,112	1,325	19.1	125.8
EBIT margin (%)	6.3	12.0	11.1	9.0	12.3		
Other income	18	12	-20	11	37	246.3	112.5
Finance cost	28	34	44	56	56	(1.4)	96.1
PBT	576	1,244	1,227	1,067	1,307	22.5	126.9
Tax expenses	120	260	223	228	245	7.4	104.7
ETR (%)	20.8	20.9	18.2	21.4	18.7		
PAT	456	984	1,004	839	1,062	26.6	132.7
Net profit margin (%)	4.9	9.3	8.7	6.8	9.8		
EPS (Rs)	12.9	27.8	28.3	23.7	30.0	26.6	132.7

Source: Company data, I-Sec research

Table 2: Galaxy Surfactants (consolidated) – total volumes rose 0.6% YoY

(Rs mn, year ending March 31)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	QoQ (%)	YoY (%)
Segmental volumes (te)							
Performance surfactants	36,983	35,410	35,443	38,902	39,156	0.7	5.9
Specialty care products	21,044	22,101	19,829	20,381	19,208	(5.8)	(8.7)
Total volumes (te)	58,027	57,511	55,272	59,283	58,364	(1.6)	0.6
Segmental volumes mix (%)							
Performance surfactants	63.7	61.6	64.1	65.6	67.1		
Specialty care products	36.3	38.4	35.9	34.4	32.9		

Source: Company data, I-Sec research

Table 3: Galaxy Surfactants (consolidated) – AMET volumes dipped 6.4% YoY

%	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
AMET	(9.2)	(29.1)	(21.3)	(16.8)	(6.4)
India	6.9	3.3	2.6	8.5	12.2
ROW	2.5	11.0	(5.5)	13.6	(8.9)

Source: Company data, I-Sec research

Table 4: Galaxy Surfactants' (consolidated) per-kg analysis

(Rs/kg)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	QoQ (%)	YoY (%)
Revenue	160	183	210	208	185	(10.9)	15.6
Raw material cost	116	123	145	152	127	(16.6)	9.0
Gross profit	44.0	60.4	64.6	55.9	58.5	4.6	33.0
Operating cost	30.8	35.2	37.8	33.6	32.1	(4.7)	4.1
EBITDA	13.2	25.2	26.8	22.2	26.4	18.8	100.5

Source: Company data, I-Sec research

Table 5: Galaxy Surfactants – standalone financials

Rs mn	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	QoQ (%)	YoY (%)
Revenue	6,564	7,927	8,563	8,648	7,607	(12.0)	15.9
Cost of Goods sold	4,975	5,706	6,448	6,601	5,458	(17.3)	9.7
Gross profit	1,589	2,222	2,115	2,047	2,149	5.0	35.2
Gross profit margin (%)	24.2	28.0	24.7	23.7	28.3		
Employee cost	281	323	341	351	345	(1.5)	23.0
Other expenses	901	1,009	978	892	775	(13.1)	(14.0)
Total expenses	1,182	1,332	1,319	1,243	1,120	(9.9)	(5.2)
EBITDA	408	890	796	805	1,029	27.9	152.4
EBITDA margin (%)	6.2	11.2	9.3	9.3	13.5		
Depreciation	109	112	118	129	135	4.3	23.3
EBIT	299	778	678	676	895	32.4	199.6
EBIT margin (%)	4.5	9.8	7.9	7.8	11.8		
Other income	49	-176	-40	-19	(28)		
Finance cost	16	20	26	33	30	(8.9)	91.0
PBT	332	582	612	624	837	34.2	152.0
Tax expenses	88	156	157	159	212	33.5	142.4
ETR (%)	26.4	26.8	25.6	25.5	25.4		
PAT	245	426	455	465	625	34.4	155.5
Net profit margin (%)	3.7	5.4	5.3	5.4	8.2		

Source: Company data, I-Sec research

Table 6: Galaxy Surfactants – international biz (consolidated less standalone)

(Rs mn, year ending March 31)

Rs mn	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	QoQ (%)	YoY (%)
Revenue	2,727	2,602	3,026	3,668	3,196	(12.9)	17.2
Cost of Goods sold	1,766	1,352	1,570	2,403	1,933	(19.6)	9.5
Gross profit	961	1,250	1,456	1,265	1,262	(0.2)	31.4
Gross profit margin (%)	35.2	48.0	48.1	34.5	39.5		
Employee cost	235	260	278	277	254	(8.0)	8.3
Other expenses	370	430	495	476	497	4.4	34.3
Total expenses	605	690	772	752	751	(0.2)	24.2
EBITDA	356	560	684	512	511	(0.2)	43.5
EBITDA margin (%)	13.1	21.5	22.6	14.0	16.0		
Depreciation	68	72	71	76	81	6.9	18.8
EBIT	288	488	613	437	430	(1.4)	49.4
EBIT margin (%)	10.6	18.8	20.2	11.9	13.5		
Other income	(31.4)	187.7	19.7	30.0	65.4		
Finance cost	13	14	18	24	26	8.8	102.3
PBT	244	662	615	443	470	6.1	92.7
Tax expenses	32	104	66	69	33	(52.8)	1.6
ETR (%)	13.1	15.7	10.8	15.6	6.9		
PAT	212	558	548	374	437	17.0	106.4
Net profit margin (%)	7.8	21.4	18.1	10.2	13.7		

Source: Company data, I-Sec research

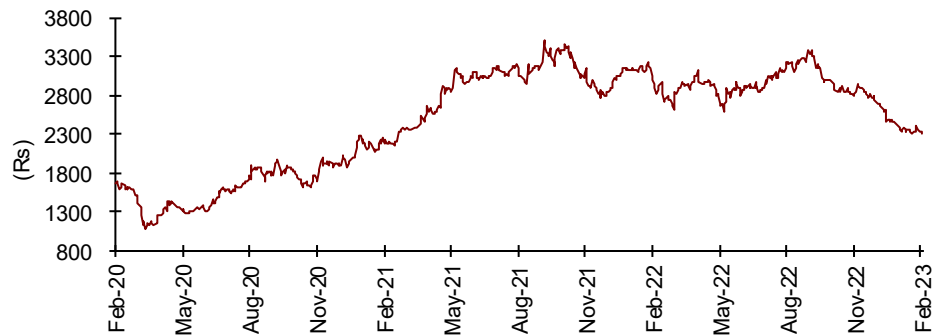
Table 7: Earnings revision (consolidated)

(Rs mn, year ending March 31)

	Revised		Earlier		% change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	44,392	38,645	45,435	39,802	(2.3)	(2.9)
Gross profit	13,628	13,912	13,403	13,334	1.7	4.3
GP margin (%)	30.7	36.0	29.5	33.5		
EBITDA	5,676.5	5,701.3	5,163.5	5,400.3	9.9	5.6
EBITDA margin (%)	12.8	14.8	11.4	13.6		
PAT	3,625	3,744	3,226	3,462	12.4	8.1
EPS (Rs)	102.2	105.6	91.0	97.7	12.4	8.1

Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Financial summary

Table 8: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Operating Income (Sales)	36,857	44,392	38,645	38,121
Operating Expenses	32,850	38,716	32,944	31,931
EBITDA	4,007	5,676	5,701	6,190
% margins	10.9	12.8	14.8	16.2
Depreciation & Amortisation	711	823	950	1,047
Net Interest	129	220	145	70
Other Income	125	25	144	151
Recurring PBT	3,293	4,659	4,751	5,225
Add: Extraordinaries				
Less: Taxes	665	1,034	1,007	1,108
- Current tax				
- Deferred tax				
Less: Minority Interest				
Net Income (Reported)	2,628	3,625	3,744	4,117
Recurring Net Income	2,628	3,625	3,744	4,117

Source: Company data, I-Sec research

Table 9: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Assets				
Total Current Assets	16,303	19,267	17,886	19,342
of which cash & cash eqv.	711	2,239	3,062	4,720
Total Current Liabilities & Provisions	6,353	7,652	6,661	6,571
Net Current Assets	9,950	11,615	11,225	12,771
Investments	5	5	5	5
of which				
Strategic/Group	-	-	-	-
Other Marketable	5	5	5	5
Net Fixed Assets	9,659	10,557	10,908	11,861
Goodwill				
Total Assets	19,614	22,177	22,137	24,637
Liabilities				
Borrowings	3,660	3,660	1,160	1,160
Deferred tax liability	210	210	210	210
Minority Interest				
Equity Share Capital	355	355	355	355
Face Value per share (Rs)	10.0	10.0	10.0	10.0
Reserves & Surplus	15,389	17,952	20,413	22,912
Net Worth	15,744	18,307	20,767	23,267
Total Liabilities	19,614	22,177	22,137	24,637

Source: Company data, I-Sec research

Table 10: Quarterly trend

(Rs mn, year ending March 31)

	Mar-22	Jun-22	Sep-22	Dec-22
Net sales	10,529	11,589	12,316	10,803
% growth (YoY)	34.4	40.2	40.4	16.3
EBITDA	1,450	1,480	1,317	1,541
Margin (%)	13.8	12.8	10.7	14.3
Other income	12	(20)	11	37
Add: Extraordinaries				
Net profit	984	1,004	839	1,062

Source: Company data

Table 11: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Operating Cashflow	3,500	4,642	4,694	5,082
Working Capital Changes	(3,450)	(137)	1,214	111
Capital Commitments	(1,552)	(1,721)	(1,300)	(2,000)
Free Cashflow	(1,502)	2,783	4,608	3,193
Cashflow from Investing Activities	710	25	144	151
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	941	-	(2,500)	-
Dividend paid & Others	(350)	(1,281)	(1,428)	(1,687)
Chg. in Cash & Bank balance	(201)	1,527	824	1,657

Source: Company data, I-Sec research

Table 12: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Per Share Data (in Rs.)				
Recurring EPS	74.1	102.2	105.6	116.1
Reported EPS	74.1	102.2	105.6	116.1
Recurring Cash EPS	94.2	125.5	132.4	145.7
Dividend per share (DPS)	18.0	29.9	36.2	45.6
Book Value per share (BV)	444.1	516.4	585.8	656.3
Growth Ratios (%)				
Operating Income	32.4	20.4	(12.9)	(1.4)
EBITDA	(10.7)	41.7	0.4	8.6
Recurring Net Income	(13.0)	37.9	3.3	10.0
Diluted Recurring EPS	(13.0)	37.9	3.3	10.0
Diluted Recurring CEPS	(11.2)	33.2	5.5	10.0
Valuation Ratios (% YoY)				
P/E	32.8	23.8	23.0	20.9
P/CEPS	25.8	19.4	18.4	16.7
P/BV	5.5	4.7	4.1	3.7
EV / EBITDA	22.2	15.4	14.8	13.3
EV / Operating Income	2.4	2.0	2.2	2.2
EV / Operating FCF	(112.5)	31.2	17.7	24.7
Operating Ratios				
Other Income / PBT (%)	3.8	0.5	3.0	2.9
Effective Tax Rate (%)	20.2	22.2	21.2	21.2
NWC / Total Assets (%)	50.7	52.4	50.7	51.8
Inventory Turnover (days)	70.5	56.1	56.1	56.1
Receivables (days)	63.2	63.2	63.2	63.2
Payables (days)	51.4	51.4	51.4	51.4
Net Debt/EBITDA Ratio (x)	0.7	0.2	(0.3)	(0.6)
Capex % of sales	4.2	3.9	3.4	5.2
Profitability Ratios (%)				
Rec. Net Income Margins	7.1	8.2	9.7	10.8
RoCE(pre-tax)	17.0	22.1	21.7	21.1
RoIC	16.0	19.7	19.4	21.0
RoNW	18.3	21.3	19.2	18.7
Dividend Yield	0.7	1.2	1.5	1.9
Gross Margins	29.8	30.7	36.0	39.0
EBITDA Margins	10.9	12.8	14.8	16.2

Source: Company data, I-Sec research

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