

Galaxy Surfactants

Estimate changes



TP change



Rating change



Bloomberg	GALSURF IN
Equity Shares (m)	35
M.Cap.(INRb)/(USDb)	104.7 / 1.3
52-Week Range (INR)	3010 / 2218
1, 6, 12 Rel. Per (%)	14/12/-3
12M Avg Val (INR M)	58

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	44.5	41.4	45.1
EBITDA	5.7	5.4	6.1
PAT	3.8	3.4	4.0
EPS (INR)	107	97	113
EPS Gr. (%)	45.0	-9.7	16.1
BV/Sh.(INR)	531	608	698
Ratios			
Net D:E	0.0	-0.1	-0.2
RoE (%)	22.0	17.0	17.3
RoCE (%)	19.2	16.1	17.0
Payout (%)	20.5	20.5	20.5
Valuations			
P/E (x)	27.3	30.3	26.1
P/BV (x)	5.5	4.8	4.2
EV/EBITDA (x)	18.4	18.7	16.2
Div. Yield (%)	0.7	0.7	0.8
FCF Yield (%)	4.1	3.7	2.8

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	70.9	70.9	70.9
DII	12.6	12.7	12.7
FII	3.1	3.0	2.8
Others	13.4	13.4	13.5

FII Includes depository receipts

CMP: INR2,953 TP: INR3,380 (+15%)
Buy

Robust overall volumes led by growth across markets

- Galaxy Surfactants (GALSURF) reported EBITDA/kg of INR19.2, down 14% YoY (our estimate of INR21.5). Inventory destocking continued in North America in 2Q, but intensity seems to be lower than in 1Q. The company achieved a total volume growth of ~10% YoY to 65.1tmt (our est. of 61.1tmt) with growth across markets. Subsequently, EBITDA stood at INR1.2b (down 5% YoY), while PAT came in at INR774m (down 8% YoY).
- The management highlighted that Indian demand remained resilient, with demand improvement seen for premium categories in the domestic market. AMET market too saw a strong comeback with double-digit growth on a sequential basis. There is no slowdown in offtake because of the ongoing Israel-Hamas conflict, but the management said that the risk still exists with the situation warranting a close watch.
- The management is confident of achieving volume growth in the upper band of the guided range of 6-8% but remains cautious about any adverse supply-led shocks. It expects that EBITDA/kg would improve going forward with easing inflation and demand improvements for premium specialties. EBITDA/kg guidance remains at INR19.5-20.5 for FY24. We remain confident on the long-term growth trajectory of the company.
- The company has guided that the easing raw material prices, freight rates and recovery in developing markets would aid Performance Surfactant volumes. However, a recovery in North America holds the key for Premium Specialty products. The board has also approved the incorporation of a wholly owned subsidiary in Europe to stay closer and assess the market in order to serve it better.
- The stock is currently trading at ~26x FY25E EPS of INR112.7 and ~16x FY25E EV/EBITDA. We value the company at 30x FY25E EPS to arrive at a TP of INR3,380. We reiterate our BUY rating on the stock.

In line EBITDA; double digit volume growth YoY

- Revenue was at INR9.8b (our est. of INR10b, -20% YoY)
- EBITDA came in at INR1.2b (est. of INR1.3b, -5% YoY). Gross margin was at 31.5% (+430bp YoY), with **EBITDAM at 12.7% (+210bp YoY)**
- PAT came in at IN774m (est. of INR833m, -8% YoY)
- For 1HFY24**, revenue was at INR19b (-20% YoY), EBITDA at INR2.5b (-11% YoY) while PAT at INR1.5b (-17% YoY). EBITDAM was at 12.9% (+120bp YoY)

Operating highlights

- Total volumes in 2Q stood at 65.1tmt (est. of 61.1tmt, +10% YoY).
- Revenue share from Performance Surfactants was 60% of overall revenue, while the rest was from Specialty Care Products.
- Revenue share: 55% from MNCs, 11% from regional players and 34% from Local & Niche players

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- India contributed 42% of overall revenues, while AMET region contributed 24% and RoW 34%.
- Implied realization was at INR151/kg (est. of INR164, -28% YoY) with EBITDA/kg at INR19.2 (our est. of INR21.5, -14% YoY).

Other highlights

- Mr. U Shekhar, MD & Promoter, would be completing his term as MD on 17th Feb'24 but would continue as Non-Executive, Non-Independent Director
- Subsequently, Mr. K. Natarajan has been appointed as MD of GALSURF, after Mr. Shekhar's term, for a period of three years. Mr. Natarajan has been COO of the company since Oct'16 (joined GALSURF in CY93).
- Mr. Vaijanath Kulkarni would be appointed as Executive Director and COO.
- The board has also approved the formation of a wholly owned subsidiary (WOS) in Europe.
- The WOS would be in the business of Investment Holding, Trading & Marketing, Distribution, Manufacturing etc. of Surfactants and Specialty Ingredients & Chemicals.

Valuation and view

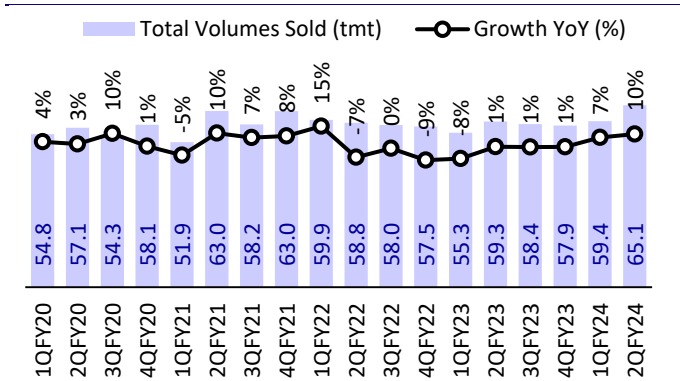
- The continued focus on R&D (with an annual expenditure of INR400-500m) and increased wallet share from its existing customers should drive volume growth. Margin is also expected to expand gradually.
- We estimate a volume CAGR of 9% over FY23-25, led by robust volumes in the domestic market and a recovery in the Specialty Care Products volumes in the developed markets, which have already started showing signs of growth.
- The stock is currently trading at ~26x FY25E EPS of INR112.7 and ~16x FY25E EV/EBITDA. We value the company at 30x FY25E EPS to arrive at a TP of INR3,380. We reiterate our BUY rating on the stock.

Consolidated - Quarterly Snapshot

Y/E March	(INR m)											
	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Gross Sales	11,589	12,365	10,803	9,745	9,418	9,831	10,602	11,522	44,501	41,372	10,043	-2%
YoY Change (%)	40.2	40.9	16.3	-7.5	-18.7	-20.5	-1.9	18.2	20.7	-7.0	-18.5	
Gross Margin (%)	30.8%	27.2%	31.6%	32.4%	32.4%	31.5%	31.8%	31.5%	30.3%	31.8%	32.5%	-1.0%
EBITDA	1,480	1,317	1,541	1,345	1,232	1,249	1,425	1,527	5,683	5,433	1,314	-5%
Margin (%)	12.8	10.7	14.3	13.8	13.1	12.7	13.4	13.3	12.8	13.1	13.1	-0.4
Depreciation	189	205	216	225	238	247	255	264	835	1,003	240	
Interest	44	56	56	61	57	54	59	65	217	234	59	
Other Income	-20	11	37	70	25	27	30	32	99	114	28	
PBT	1,227	1,067	1,307	1,129	962	975	1,142	1,231	4,730	4,309	1,044	-7%
Tax	223	228	245	224	210	201	231	229	920	871	210	
Rate (%)	18.2	21.4	18.7	19.8	21.8	20.6	20.2	18.6	19.4	20.2	20.2	
Reported PAT	1,004	839	1,062	905	752	774	911	1,002	3,810	3,439	833	-7%
YoY Change (%)	30.7	100.0	132.8	-8.0	-25.1	-7.7	-14.2	10.6	45.0	-9.7	-0.7	
Margin (%)	8.7	6.8	9.8	9.3	8.0	7.9	8.6	8.7	8.6	8.3	8.3	-0.4
Total Volumes (tmt)	55.3	59.3	58.4	57.9	59.4	65.1	63.8	64.4	230.8	252.7	61.1	7%
Operating Performance (INR/kg)												
Implied realization (INR/kg)	209.7	208.6	185.1	168.4	158.6	151.0	166.2	178.8	192.8	163.7	164.3	-8%
Gross margin (INR/kg)	64.6	56.7	58.5	54.6	51.4	47.5	52.8	56.3	58.5	52.0	53.4	-11%
EBITDA (INR/kg)	26.8	22.2	26.4	23.2	20.8	19.2	22.3	23.7	24.6	21.5	21.5	-11%

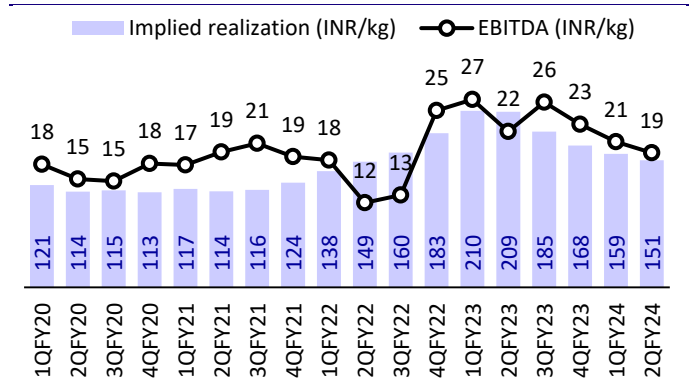
2QFY24 story in charts

Exhibit 1: Total volumes up 10% YoY...



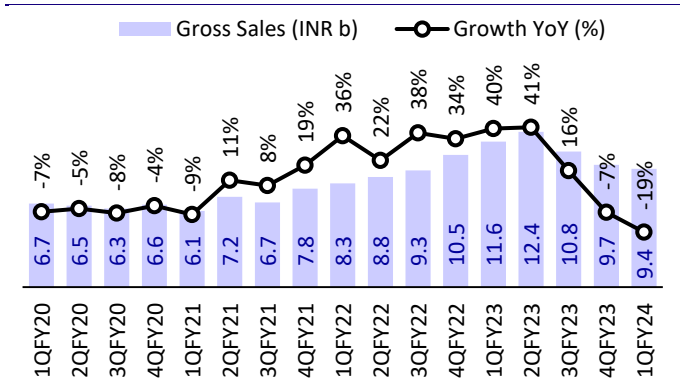
Source: Company, MOFSL

Exhibit 2: ...with EBITDA/kg at INR19.2 (down 14% YoY)



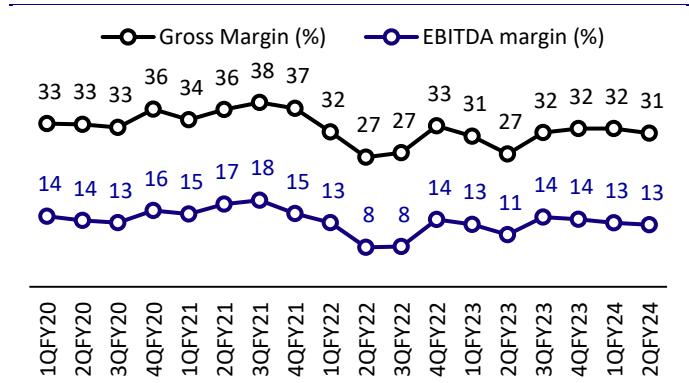
Source: Company, MOFSL

Exhibit 3: Gross sales declined 20% YoY



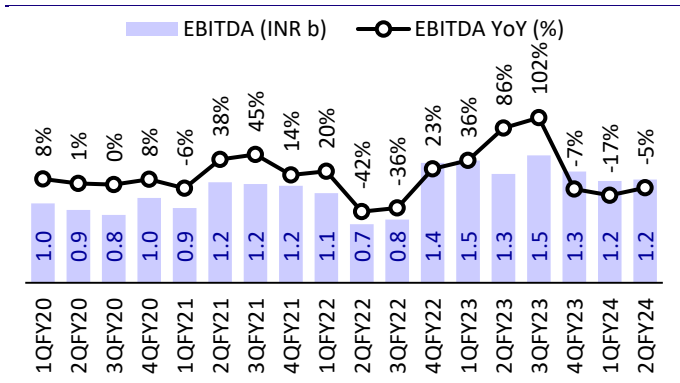
Source: Company, MOFSL

Exhibit 4: Margins expanded YoY



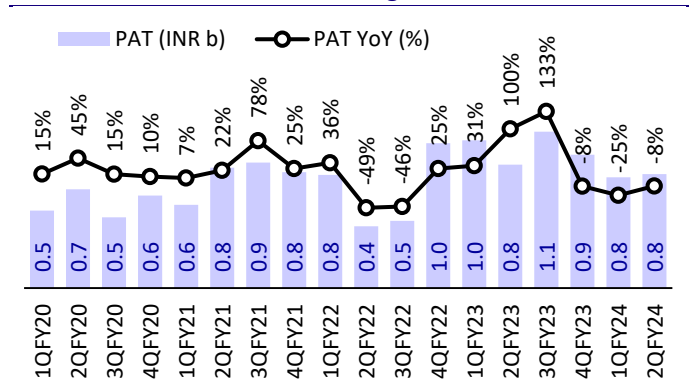
Source: Company, MOFSL

Exhibit 5: EBITDA declined 5% YoY...

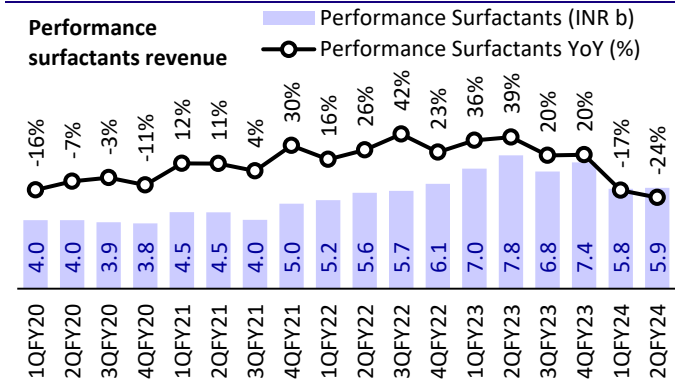


Source: Company, MOFSL

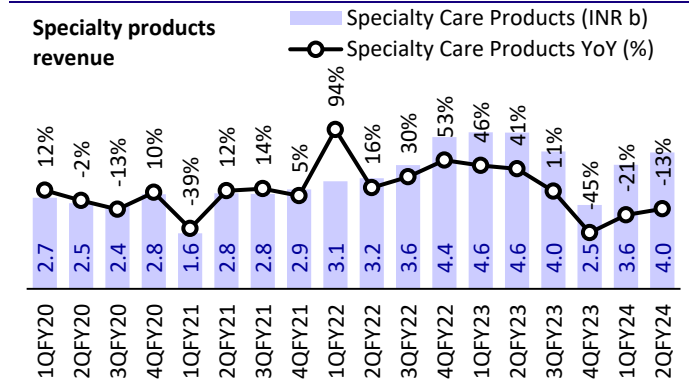
Exhibit 6: ...with PAT also declining 8% YoY



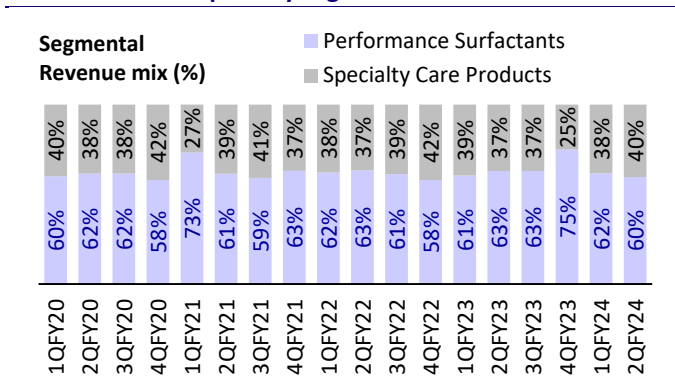
Source: Company, MOFSL

Exhibit 7: Performance surfactants revenue stood at INR5.9b

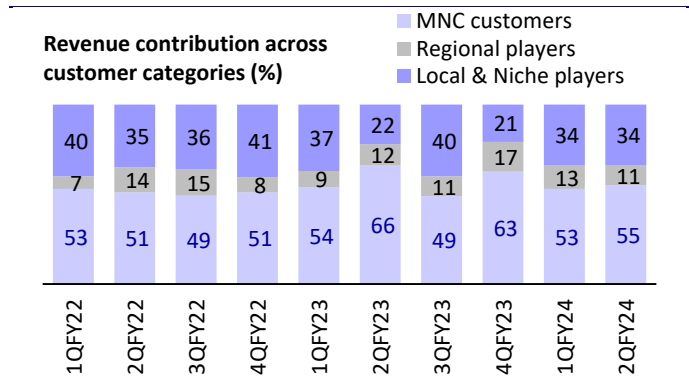
Source: Company, MOFSL

Exhibit 8: Specialty Care products revenue stood at INR4b

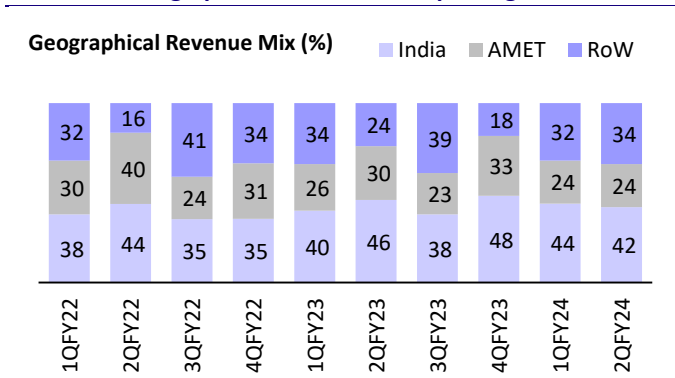
Source: Company, MOFSL

Exhibit 9: Mix of Specialty segment increased YoY

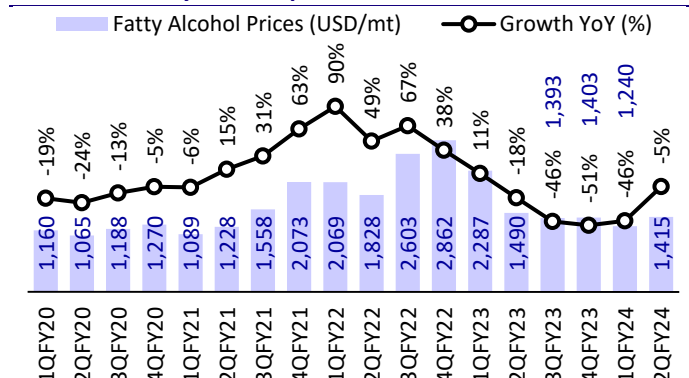
Source: Company, MOFSL

Exhibit 10: Contribution of local & niche players to overall revenues increased YoY

Source: Company, MOFSL

Exhibit 11: Geographical revenue mix improving for RoW YoY

Source: Company, MOFSL

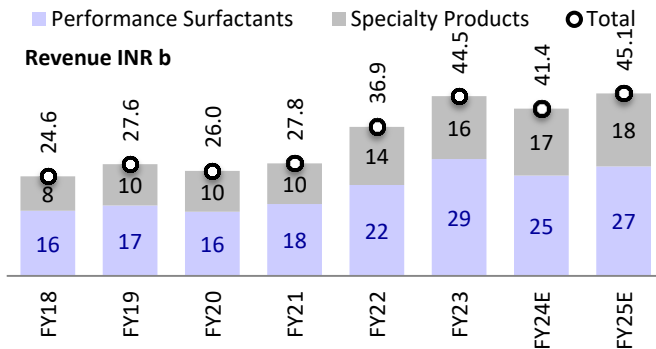
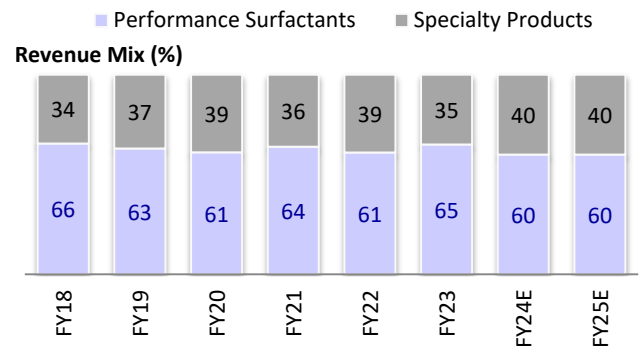
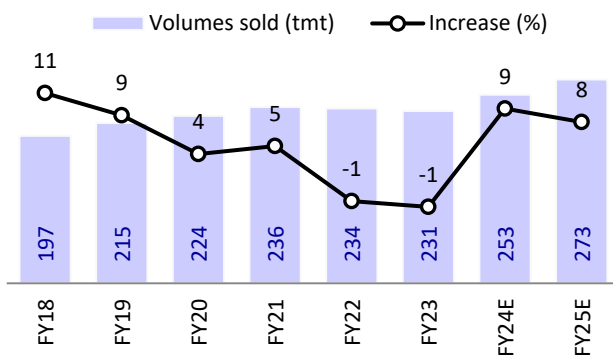
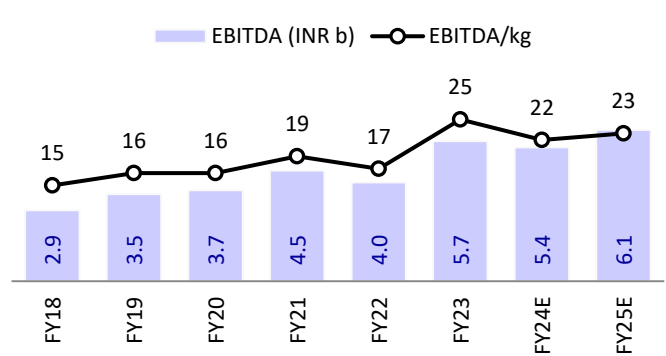
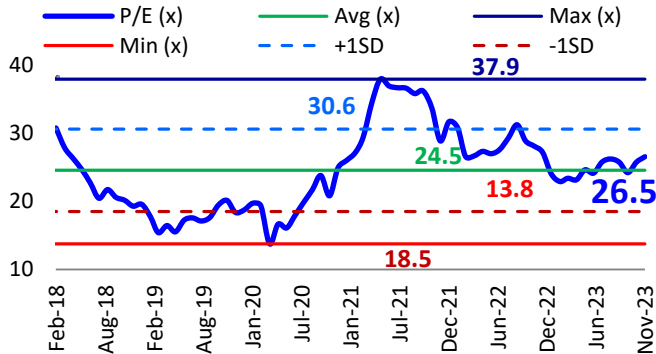
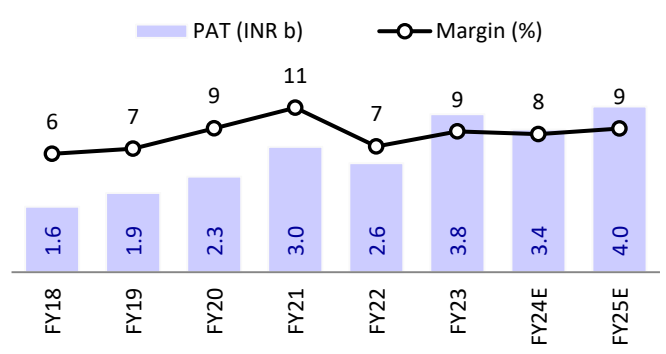
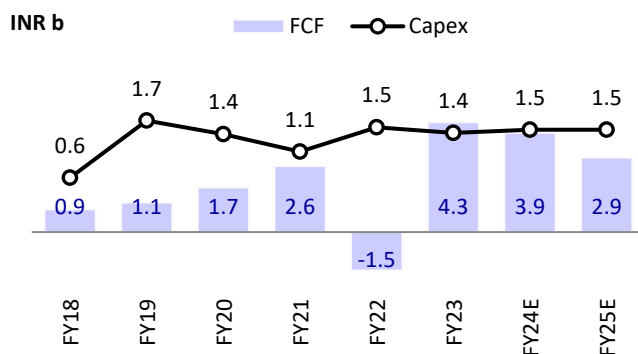
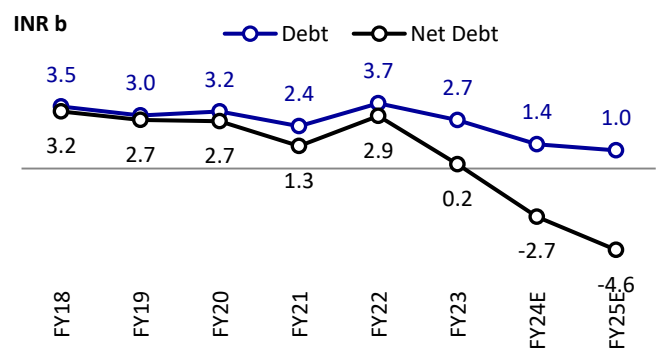
Exhibit 12: Fatty Alcohol price declined 5% YoY

Source: Company, MOFSL

Management concall highlights

- Volume growth across the board in all regions across product segments
- Improved performance in AMET and RoW markets
- Uptick being seen in the Egypt market
- Remains confident on India demand, with double-digit growth story remaining intact.
- Barring any macro headwinds, the management expects that 2H would be better than 1H.
- EBITDA/kg to decline in FY24 and to stay between INR19.5-20.5
- Uptick in premium specialties remains key to uptick in EBITDA/kg
- No signs of a slowdown because of the Israel-Hamas issue
- Supply chains and logistics are normal with no signs of concerns
- Needs monitor the situation closely
- Specialty volumes in India are picking up, albeit at a small pace (less than 10% of overall Specialty volumes)
- Developed markets key to uptick in specialty care products
- Europe market is a significant market for GALSURF in Specialty Care products and therefore being closer to the market would help
- Destocking may not be completely over in specialty segment

Story in charts

Exhibit 13: Steady market share of Specialty products...

Exhibit 14: ...with Performance products share at 60%

Exhibit 15: Volume CAGR of 9% expected over FY23-25

Exhibit 16: With higher EBITA/kg

Exhibit 17: One-year forward P/E...

Exhibit 18: ...expect PAT margin to remain stable

Exhibit 19: GALSURF is likely to generate an FCF of INR6.8b...

Exhibit 20: Debt profile of GALSURF


Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	24,625	27,630	25,964	27,841	36,857	44,452	41,372	45,129
Change (%)	9.5	12.2	-6.0	7.2	32.4	20.6	-6.9	9.1
Gross Margin (%)	28.9	29.5	33.9	36.3	29.8	30.3	31.8	32.1
EBITDA	2,877	3,534	3,689	4,488	4,007	5,683	5,433	6,141
Margin (%)	11.7	12.8	14.2	16.1	10.9	12.8	13.1	13.6
Depreciation	485	512	622	740	711	835	1,003	1,020
EBIT	2,392	3,022	3,067	3,749	3,297	4,848	4,430	5,121
Int. and Finance Charges	306	300	238	134	129	217	234	238
Other Income	101	47	59	109	125	99	114	122
PBT bef. EO Exp.	2,188	2,769	2,888	3,723	3,293	4,730	4,309	5,005
PBT after EO Exp.	2,188	2,769	2,888	3,723	3,293	4,730	4,309	5,005
Total Tax	607	859	584	702	665	920	871	1,011
Tax Rate (%)	27.8	31.0	20.2	18.8	20.2	19.4	20.2	20.2
Reported PAT	1,580	1,910	2,304	3,021	2,628	3,810	3,439	3,994
Adjusted PAT	1,580	1,910	2,304	3,021	2,628	3,810	3,439	3,994
Change (%)	7.1	20.9	20.6	31.1	-13.0	45.0	-9.7	16.1
Margin (%)	6.4	6.9	8.9	10.9	7.1	8.6	8.3	8.8

Consolidated - Balance Sheet

	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	355	355	355	355	355	355	355	355
Total Reserves	6,833	8,413	10,323	12,660	15,389	18,471	21,206	24,382
Net Worth	7,188	8,767	10,678	13,014	15,744	18,826	21,560	24,736
Total Loans	3,480	2,978	3,196	2,374	3,660	2,718	1,359	1,019
Deferred Tax Liabilities	277	320	241	233	249	283	283	283
Capital Employed	10,944	12,065	14,115	15,621	19,652	21,827	23,203	26,039
Gross Block	8,548	9,722	11,525	11,945	12,828	15,302	16,802	18,302
Less: Accum. Deprn.	4,148	4,609	5,231	5,971	6,681	7,516	8,519	9,539
Net Fixed Assets	4,399	5,112	6,294	5,974	6,146	7,786	8,282	8,763
Goodwill on Consolidation	24	25	28	27	28	30	30	30
Capital WIP	249	826	660	1,240	2,055	1,392	1,392	1,392
Total Investments	1	0	58	435	5	0	0	0
Curr. Assets, Loans&Adv.	9,881	9,717	11,081	12,821	17,772	18,137	18,618	21,415
Inventory	3,456	3,513	3,250	4,278	7,118	6,458	5,987	6,495
Account Receivables	4,182	4,268	4,394	4,689	6,380	6,148	5,722	6,242
Cash and Bank Balance	276	257	542	1,114	711	2,476	4,061	5,578
Cash	271	250	477	815	638	2,319	3,904	5,421
Bank balance	5	7	65	299	74	157	157	157
Loans and Advances	1,966	1,680	2,894	2,740	3,563	3,055	2,848	3,101
Curr. Liability & Prov.	3,610	3,615	4,005	4,874	6,353	5,518	5,119	5,560
Account Payables	3,278	3,059	2,731	3,770	5,189	4,302	3,988	4,326
Other Current Liabilities	230	416	1,098	918	1,011	1,082	1,007	1,098
Provisions	102	140	176	186	153	134	125	136
Net Current Assets	6,271	6,102	7,075	7,947	11,419	12,620	13,498	15,854
Appl. of Funds	10,944	12,065	14,115	15,621	19,652	21,827	23,203	26,039

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	44.6	53.9	65.0	85.2	74.1	107.5	97.0	112.7
EPS Growth (%)	7.1	20.9	20.6	31.1	-13.0	45.0	-9.7	16.1
Cash EPS	58.3	68.3	82.5	106.1	94.2	131.0	125.3	141.4
BV/Share	202.8	247.3	301.2	367.1	444.1	531.0	608.2	697.8
DPS	3.0	12.0	17.0	18.0	18.0	22.0	19.9	23.1
Payout (%)	8.1	26.9	31.5	21.1	24.3	20.5	20.5	20.5
Valuation (x)								
P/E	65.8	54.5	45.2	34.4	39.6	27.3	30.3	26.1
Cash P/E	50.4	43.0	35.6	27.7	31.2	22.4	23.4	20.8
P/BV	14.5	11.9	9.7	8.0	6.6	5.5	4.8	4.2
EV/Sales	4.4	3.9	4.1	3.8	2.9	2.3	2.4	2.2
EV/EBITDA	37.3	30.2	28.9	23.5	26.7	18.4	18.7	16.2
Dividend Yield (%)	0.1	0.4	0.6	0.6	0.6	0.7	0.7	0.8
FCF per share	25.1	32.4	49.2	72.7	-42.3	121.0	109.5	82.2
Return Ratios (%)								
RoE	24.4	23.9	23.7	25.5	18.3	22.0	17.0	17.3
RoCE	17.3	18.4	19.1	21.1	15.5	19.2	16.1	17.0
RoIC	17.3	19.5	20.5	23.7	17.7	22.4	19.8	22.2
Working Capital Ratios								
Fixed Asset Turnover (x)	5.6	5.8	4.6	4.5	6.1	6.4	5.1	5.3
Asset Turnover (x)	2.3	2.3	1.8	1.8	1.9	2.0	1.8	1.7
Inventory (Days)	51	46	46	56	70	53	53	53
Debtor (Days)	62	56	62	61	63	50	50	50
Creditor (Days)	49	40	38	49	51	35	35	35
Leverage Ratio (x)								
Current Ratio	2.7	2.7	2.8	2.6	2.8	3.3	3.6	3.9
Interest Cover Ratio	7.8	10.1	12.9	27.9	25.7	22.3	18.9	21.5
Net Debt/Equity	0.4	0.3	0.2	0.1	0.2	0.0	-0.1	-0.2

Consolidated - Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR m)								
OP/(Loss) before Tax	2,188	2,769	2,888	3,723	3,293	4,730	4,309	5,005
Depreciation	485	512	622	740	711	835	1,003	1,020
Others	249	288	220	79	90	214	234	238
Direct Taxes Paid	-583	-750	-686	-706	-594	-953	-871	-1,011
(Inc)/Dec in WC	-886	11	113	-186	-3,450	903	706	-839
CF from Operations	1,454	2,830	3,157	3,651	49	5,729	5,382	4,412
Capex	-562	-1,680	-1,414	-1,073	-1,547	-1,439	-1,500	-1,500
Free Cash Flow	891	1,150	1,744	2,578	-1,498	4,291	3,882	2,912
CF from Investments	-546	-1,673	-1,511	-1,647	-841	-1,486	-1,500	-1,500
Inc/(Dec) in Debt	-485	-623	562	-951	941	-1,039	-1,359	-340
Interest Paid	-285	-272	-226	-152	-131	-241	-234	-238
Dividend Paid	-127	-298	-940	-495	-142	-1,275	-704	-818
CF from Fin. Activity	-897	-1,192	-1,434	-1,650	592	-2,643	-2,297	-1,395
Inc/Dec of Cash	11	-36	212	354	-201	1,601	1,585	1,517
Opening Balance	257	271	250	477	815	637	2,318	3,903
Closing Balance	270	251	477	815	637	2,318	3,903	5,421

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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