

Galaxy Surfactants

Higher per-unit EBITDA drives earnings

Our BUY recommendation on GALSURF with a price target of INR 2,100 is premised on (1) stickiness of business as 55% of the revenue mix comes from MNCs, (2) stable EBITDA margins at >12% since fluctuations in raw material costs (RMC) are easily passed on to customers, and (3) strong return ratios (RoE/RoIC of 22/18% in FY22E).

- **View on the result:** EBITDA/APAT was 74%/2.3x higher than estimates, attributable to (1) 23% higher volumes and (2) 42% higher per-ton EBITDA.
- **Resilient performance despite the pandemic:** 1Q revenue declined merely by 8/9% QoQ/YoY to INR 6bn due to (1) only 11/5% QoQ/YoY decline in overall volumes, (2) 4/-4% QoQ/YoY growth in per-unit realisation. Strong demand for performance surfactants (+8% YoY) was offset by lower demand for speciality care products (-26% YoY). Increased awareness for hygiene, given COVID-19, led to a spike in volume offtake for the former; however, as discretionary spending reduced during the pandemic, the latter suffered a blow. Despite a strong demand, labour shortage and lower production by customers (supply constraints) dragged overall volumes of the company.
- **Margins:** Gross margin dipped by 217bps QoQ to 34.2%. However, EBITDAM corrected merely by 73bps QoQ to 14.9% owing to 199bps dip in opex margins. Lower opex (-21% QoQ) was consequential to curtailed repairs and maintenance, travel, power and fuel expenses, which are likely to recover with volume. The company should be able to retain its GM/EBITDAM at 34.4/14.3% in FY21E (33.9/14.2% in FY20), driven by robust demand for performance surfactants (+12% YoY), given COVID-19.
- **Performance Surfactants' volume grew 8%YoY despite supply constraints:** Total volumes declined by 5%YoY to 52kT, predominantly owing to 26% YoY contraction in Specialty Care volumes to 15kT. Performance Surfactants (70% of vol mix) grew 8%YoY to 36kT. Blended volume growth was driven by the Africa/Middle East/Turkey (AMET) market (mainly, Egypt) that grew 10%YoY (42% of volume mix). Indian demand (37% of the 1Q volume mix) contracted 2%YoY. April and May 2020 were poor for the Indian market. However, volumes picked up in June. Volume declined 27%YoY from the RoW market (rest of the world) that comprised 21% of the 1Q volume mix.
- **Change in estimates:** We raise our FY21E EPS estimate by 44% to INR 62.9, led by (1) faster-than-anticipated recovery in volumes, with improvement in the Egypt and Indian markets, (2) buoyant demand for performance surfactants as COVID-19 acts as a tailwind, (3) higher-than-anticipated per-ton EBITDA margin in 1QFY21. We cut our FY22E per ton EBITDA by 15%, in line with the management's guidance leading to a 10% correction in EPS.
- **DCF-based valuation:** Price target of INR 2,100 is based on Mar-22E cash flows (WACC 10%, Terminal growth 3.0%). The stock is trading at 21.8x FY22E EPS.

Consolidated Financial Summary

Year Ending March (INR mn)	1Q FY21	4Q FY20	QoQ (%)	1Q FY20	YoY (%)	FY19	FY20	FY21E	FY22E
Revenues	6,072	6,567	(7.5)	6,650	(8.7)	27,630	25,964	27,424	34,094
EBITDA	905	1,026	(11.8)	961	(5.8)	3,472	3,689	3,921	4,752
APAT	565	628	(10.0)	526	7.5	1,910	2,244	2,231	2,815
AEPS (INR)	15.9	17.7	(10.0)	14.8	7.5	53.9	65.0	62.9	79.4
P/E (x)						32.1	26.6	27.4	21.8
EV/EBITDA (x)						16.8	15.9	15.0	12.2
RoE (%)						23.9	23.1	19.7	21.9

Source: Company, HSIE Research

BUY

CMP (as on 12 Aug 2020) INR 1,727

Target Price INR 2,100

NIFTY 11,308

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,915	INR 2,100
EPS %	FY21E	FY22E
	+44.1	-10.2

KEY STOCK DATA

Bloomberg code	GALSURF IN
No. of Shares (mn)	35
MCap (INR bn) / (\$ mn)	61/818
6m avg traded value (INR mn)	40
52 Week high / low	INR 1,791/975

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	31.7	4.7	44.5
Relative (%)	9.3	12.4	42.4

SHAREHOLDING PATTERN (%)

	Mar-20	June-20
Promoters	70.93	70.93
FIs & Local MFs	13.62	13.60
FPIs	3.25	3.09
Public & Others	12.20	12.38
Pledged Shares	0.0	0.0

Source : BSE

Nilesh Ghuge

nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Harshad Katkar

harshad.katkar@hdfcsec.com
+91-22-6171-7319

Divya Singhal

divya.singhal@hdfcsec.com
+91-22-6171-7348

Rutvi Chokshi

rutvi.chokshi@hdfcsec.com
+91-22-6171-7356

Consolidated Quarterly Financial Snapshot

(INR mn)	1QFY21	4QFY20	QoQ (%)	1QFY20	YoY (%)
Net Revenue	6,072	6,567	(7.5)	6,650	(8.7)
Raw material and Traded Goods	3,995	4,178	(4.4)	4,428	(9.8)
Employee Expenses	463	465	(0.5)	456	1.4
Other Operating Expenses	709	897	(21.0)	805	(11.9)
EBITDA	905	1,026	(11.8)	961	(5.8)
Depreciation	164	155	6.1	149	10.6
EBIT	740	871	(15.0)	812	(8.8)
Other Income	7	0	NM	13	(46.4)
Interest	48	56	(13.5)	60	(19.4)
PBT	699	816	(14.3)	765	(8.6)
Provision for tax	134	188	(28.6)	239	(44.0)
RPAT	565	628	(10.0)	526	7.5
Deferred tax adjustment	-	-	NA	-	NA
APAT	565	628	(10.0)	526	7.5
REPS (Rs)	15.9	17.7	(10.0)	14.8	7.5
Adjusted EPS (Rs)	15.9	17.7	(10.0)	14.8	7.5

Source: Company, HSIE Research

Consolidated Margin Analysis

	1QFY21	4QFY20	QoQ (bps)	1QFY20	YoY (bps)
Raw material as % of Net Revenue	65.8	63.6	217.3	66.6	(78.7)
Employee Expenses as % of Net Revenue	7.6	7.1	54.1	6.9	76.1
Other Operating Expenses as % of Net Revenue	11.7	13.7	(198.5)	12.1	(42.6)
EBITDA Margin (%)	14.9	15.6	(72.9)	14.4	45.3
Net Profit Margin (%)	9.3	9.6	(26.0)	7.9	140.2
Tax Rate (%)	19.2	23.0	(384.7)	31.3	(1,212.5)

Source: Company, HSIE Research

Consolidated operational performance

	1QFY21	4QFY20	QoQ (%)	1QFY20	YoY (%)
Performance Surfactants (MT)	36,397	38,853	(6.3)	33,771	7.8
Specialty care (MT)	15,496	19,277	(19.6)	20,996	(26.2)
Total (MT)	51,893	58,130	(10.7)	54,767	(5.2)
Per ton Revenue (INR/kg)	117.2	112.9	3.8	121.6	(3.7)
Per ton EBITDA (INR/kg)	17.4	17.7	(1.3)	17.5	(0.6)

Source: Company, HSIE Research

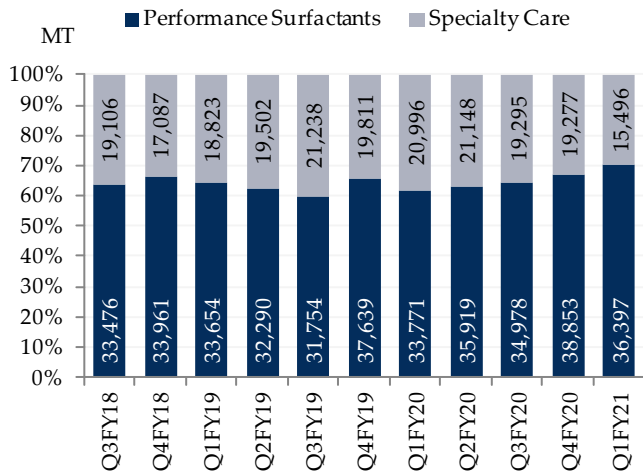
Consolidated Change in estimates

INR bn	FY21E			FY22E		
	Old	New	% Ch	Old	New	% Ch
Net Sales	25	27	11.5	34	34	0.1
EBITDA	3	4	30.3	5	5	(8.3)
APAT	2	2	44.1	3	3	(10.2)
EPS (INR/sh)	43.7	62.9	44.1	88.4	79.4	(10.2)

Source: Company, HSIE Research

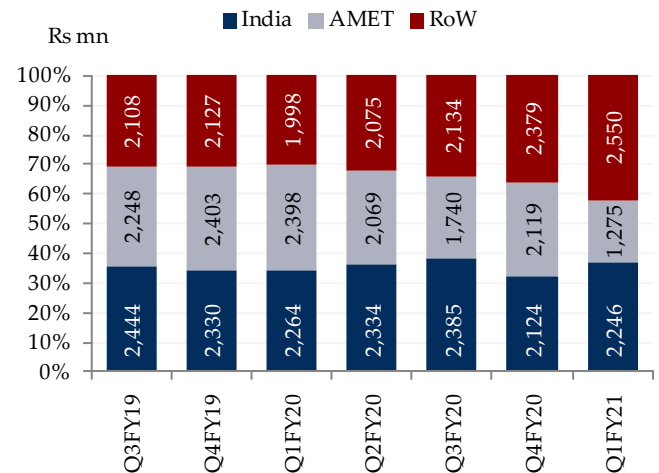
Story in charts

Segmental Volume Trend (Consolidated)



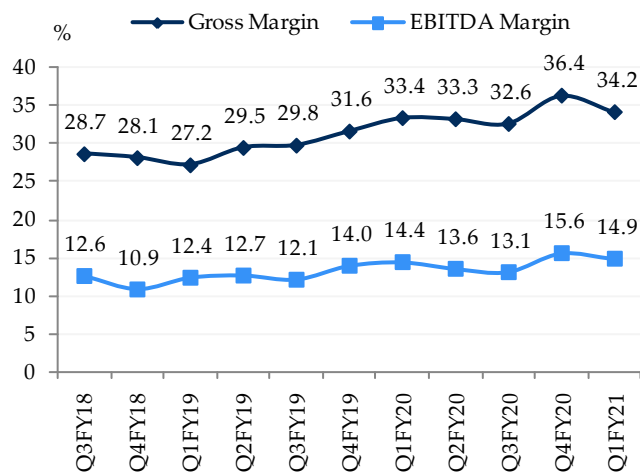
Source: Company, HSIE Research

Consolidated Geographical revenue



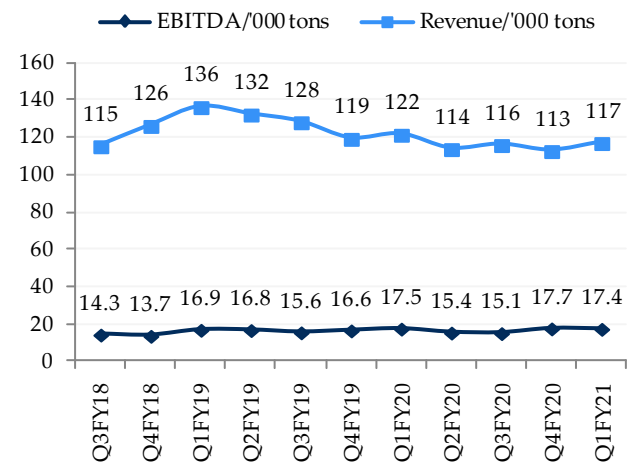
Source: Company, HSIE Research

Consolidated Margins Trend



Source: Company, HSIE Research

Per Thousand Ton Consolidated Revenue And EBITDA



Source: Company, HSIE Research

Financials

Consolidated Income Statement

INR bn	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenues	21.61	24.34	27.63	25.96	27.42	34.09
<i>Growth %</i>	<i>20.0</i>	<i>12.6</i>	<i>13.5</i>	<i>(6.0)</i>	<i>5.6</i>	<i>24.3</i>
Raw Material	14.60	16.86	18.87	17.15	18.00	23.44
Employee Cost	1.42	1.46	1.65	1.78	1.93	2.08
Other Expenses	2.88	3.14	3.65	3.34	3.57	3.82
EBITDA	2.71	2.88	3.47	3.69	3.92	4.75
<i>EBITDA Margin (%)</i>	<i>12.6</i>	<i>11.8</i>	<i>12.6</i>	<i>14.2</i>	<i>14.3</i>	<i>13.9</i>
<i>EBITDA Growth %</i>	<i>16.1</i>	<i>6.0</i>	<i>20.7</i>	<i>6.2</i>	<i>6.3</i>	<i>21.2</i>
Depreciation	0.47	0.49	0.51	0.62	0.72	0.77
EBIT	2.24	2.39	2.96	3.07	3.20	3.98
Other Income (Including EO Items)	0.10	0.10	0.11	0.06	0.06	0.07
Interest	0.27	0.31	0.30	0.24	0.28	0.28
PBT	2.07	2.19	2.77	2.89	2.98	3.76
Tax	0.60	0.61	0.86	0.58	0.75	0.95
RPAT	1.48	1.58	1.91	2.30	2.23	2.81
EO (Loss) / Profit (Net Of Tax)	-	-	-	0.06	-	-
APAT	1.48	1.58	1.91	2.24	2.23	2.81
<i>APAT Growth (%)</i>	<i>46.0</i>	<i>7.1</i>	<i>20.9</i>	<i>17.5</i>	<i>(0.6)</i>	<i>26.2</i>
AEPS (Rs)	41.6	44.6	53.9	65.0	62.9	79.4
<i>AEPS Growth %</i>	<i>46.0</i>	<i>7.1</i>	<i>20.9</i>	<i>20.6</i>	<i>(3.2)</i>	<i>26.2</i>

Source: Company, HSIE Research

Consolidated Balance Sheet

INR bn	FY17	FY18	FY19	FY20P	FY21E	FY22E
SOURCES OF FUNDS						
Share Capital	0.35	0.35	0.35	0.35	0.35	0.35
Reserves And Surplus	5.39	6.83	8.41	10.32	11.64	13.31
Total Equity	5.75	7.19	8.77	10.68	12.00	13.67
Long-term Debt	1.28	0.72	0.89	1.17	0.52	0.44
Short-term Debt	2.64	2.76	2.09	2.03	2.99	2.96
Total Debt	3.93	3.48	2.98	3.20	3.51	3.40
Deferred Tax Liability	0.25	0.28	0.32	0.24	0.27	0.29
Long-term Provision and others	0.10	0.07	0.11	0.34	0.39	0.45
TOTAL SOURCES OF FUNDS	10.03	11.02	12.18	14.46	16.17	17.81
APPLICATION OF FUNDS						
Net Block	4.56	4.47	5.19	7.48	7.41	7.78
Capital WIP	0.10	0.25	0.83	0.66	1.13	1.43
LT Loans And Advances and others	0.65	0.65	0.69	0.63	0.66	0.76
Total Non-current Investments	0.0	0.0	-	-	-	-
Inventories	3.17	3.46	3.51	3.25	3.48	4.53
Debtors	3.47	4.18	4.27	4.39	4.73	6.00
Cash and Cash Equivalent	0.26	0.28	0.26	0.60	1.27	0.22
Other Current Assets	0.66	1.27	0.94	1.11	1.22	1.59
Total Current Assets	7.56	9.19	8.97	9.35	10.70	12.34
Creditors	2.52	3.28	3.06	2.73	2.83	3.51
Other Current Liabilities & Provns	0.32	0.26	0.45	0.93	0.90	0.99
Total Current Liabilities	2.85	3.54	3.50	3.66	3.73	4.50
Net Current Assets	4.72	5.65	5.47	5.69	6.98	7.84
TOTAL APPLICATION OF FUNDS	10.03	11.02	12.18	14.46	16.17	17.81

Source: Company, HSIE Research

Consolidated Cash Flow

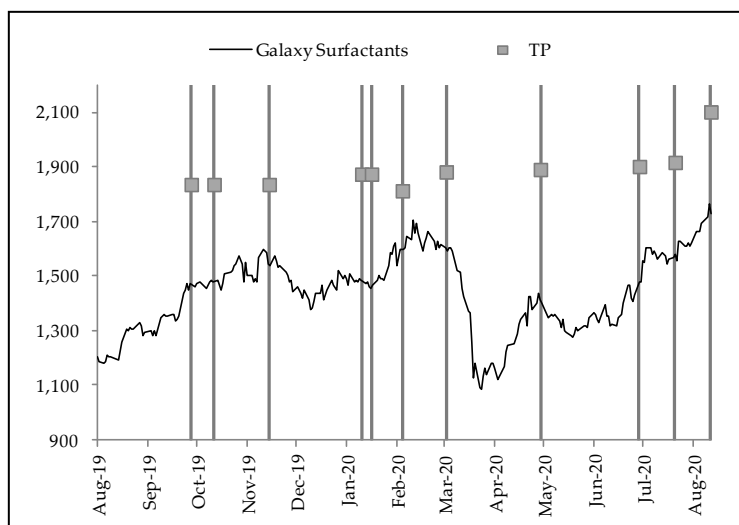
INR bn	FY17	FY18	FY19	FY20P	FY21E	FY22E
Reported PBT	2.07	2.19	2.77	2.89	2.98	3.76
Non-operating & EO Items	(0.10)	(0.10)	(0.11)	(0.06)	(0.06)	(0.07)
Interest Expenses	0.27	0.31	0.30	0.24	0.28	0.28
Depreciation	0.47	0.49	0.51	0.62	0.72	0.77
Working Capital Change	(0.94)	(0.92)	0.16	0.13	(0.62)	(1.91)
Tax Paid	(0.60)	(0.61)	(0.86)	(0.58)	(0.75)	(0.95)
OPERATING CASH FLOW (a)	1.17	1.35	2.78	3.23	2.55	1.89
Capex	(0.45)	(0.54)	(1.81)	(2.75)	(1.11)	(1.44)
Free Cash Flow (FCF)	0.73	0.81	0.97	0.48	1.43	0.45
Investments	(0.00)	0.00	0.00	-	-	-
Non-operating Income	0.10	0.10	0.11	0.06	0.06	0.07
Others	0.04	0.00	0.08	0.15	0.08	0.09
INVESTING CASH FLOW (b)	(0.31)	(0.44)	(1.62)	(2.53)	(0.98)	(1.29)
Debt Issuance/(Repaid)	(0.17)	(0.45)	(0.50)	0.22	0.31	(0.11)
Interest Expenses	(0.27)	(0.31)	(0.30)	(0.24)	(0.28)	(0.28)
FCFE	0.29	0.05	0.17	0.46	1.47	0.05
Share Capital Issuance	(0.00)	-	-	-	-	-
Dividend	(0.17)	(0.13)	(0.30)	(0.94)	(0.91)	(1.15)
Others	(0.16)	(0.02)	(0.08)	0.61	(0.03)	(0.11)
FINANCING CASH FLOW (c)	(0.77)	(0.90)	(1.18)	(0.35)	(0.90)	(1.65)
NET CASH FLOW (a+b+c)	0.10	0.01	(0.02)	0.35	0.67	(1.05)
EO Items, Others	-	-	-	-	-	-
Closing Cash & Equivalents	0.26	0.28	0.26	0.60	1.27	0.22

Consolidated Key Ratios

Ratios	FY17	FY18	FY19	FY20P	FY21E	FY22E
PROFITABILITY %						
EBITDA Margin	12.6	11.8	12.6	14.2	14.3	13.9
EBIT Margin	10.4	9.8	10.7	11.8	11.7	11.7
APAT Margin	6.8	6.5	6.9	8.6	8.1	8.3
RoE	28.8	24.4	23.9	23.1	19.7	21.9
RoIC	17.2	16.9	18.0	19.0	16.7	18.3
RoCE	17.6	17.1	18.3	18.3	15.9	17.8
EFFICIENCY						
Tax Rate %	28.8	27.8	31.0	20.2	25.2	25.2
Fixed Asset Turnover (x)	2.6	2.8	2.8	2.1	2.1	2.4
Inventory (days)	54	52	46	46	46	49
Debtor (days)	59	63	56	62	63	64
Other Current Assets (days)	11	19	12	16	16	17
Payables (days)	43	49	40	38	38	38
Other Current Liab & Provns (days)	5	4	6	13	12	11
Cash Conversion Cycle (days)	75	81	69	72	76	82
Net Debt/EBITDA (x)	1.4	1.1	0.8	0.7	0.6	0.7
Net D/E	0.6	0.4	0.3	0.2	0.2	0.2
Interest Coverage	8.2	7.8	9.9	12.9	11.4	14.0
PER SHARE DATA (Rs)						
EPS	41.6	44.6	53.9	65.0	62.9	79.4
CEPS	54.9	58.3	68.3	80.8	83.3	101.1
Dividend	4.9	3.6	8.4	26.5	25.7	32.4
Book Value	162.2	202.8	247.3	301.2	338.5	385.5
VALUATION						
P/E (x)	41.5	38.7	32.1	26.6	27.4	21.8
P/Cash EPS (x)	31.4	29.6	25.3	21.4	20.7	17.1
P/BV (x)	10.6	8.5	7.0	5.7	5.1	4.5
EV/EBITDA (x)	21.2	20.2	16.8	15.9	15.0	12.2
EV/Revenue (x)	2.7	2.4	2.1	2.3	2.2	1.7
Dividend Yield (%)	0.3	0.2	0.5	1.5	1.5	1.9
OCF/EV (%)	2.0	2.3	4.7	5.5	4.3	3.3
FCFF/EV (%)	1.3	1.4	1.7	0.8	2.4	0.8
FCFE/M Cap (%)	1.2	1.3	1.6	0.8	2.3	0.7

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
30-Sep-19	1,478	BUY	1,834
11-Oct-19	1,487	BUY	1,834
14-Nov-19	1,535	BUY	1,834
10-Jan-20	1,491	BUY	1,872
17-Jan-20	1,454	BUY	1,872
5-Feb-20	1,591	BUY	1,811
2-Mar-20	1,594	BUY	1,880
29-Apr-20	1,431	BUY	1,889
30-Jun-20	1,479	BUY	1,900
21-Jul-20	1,575	BUY	1,915
13-Aug-20	1,727	BUY	2,100

From 2nd March 2020, we have moved to new rating system

Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: >10% Downside return potential

Disclosure:

We, Nilesh Ghuge, MMS, Harshad Katkar, MBA, Divya Singhal, CA & Rutvi Chokshi, CA authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
 Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
 Board: +91-22-6171-7330 www.hdfcsec.com