

Galaxy Surfactants

BSE SENSEX
57,038

S&P CNX
17,137

CMP: INR2,976 TP: INR3,632 (+22%)

Buy



Stock Info

	GALSURF IN
Bloomberg	GALSURF IN
Equity Shares (m)	35
M.Cap.(INRb)/(USDb)	105.5 / 1.4
52-Week Range (INR)	3600 / 2543
1, 6, 12 Rel. Per (%)	5/-3/-4
12M Avg Val (INR M)	122
Free float (%)	29.1

Financials Snapshot (INR b)

Y/E March	FY22E	FY23E	FY24E
Sales	36.2	35.2	36.6
EBITDA	3.4	4.7	5.1
PAT	2.1	2.9	3.2
EPS (INR)	60	83	91
EPS Gr. (%)	(30)	40	9
BV/Sh.(INR)	412	474	542

Ratios

Net D:E	0.2	0.0	(0.1)
RoE (%)	15.3	18.8	17.9
RoCE (%)	13.0	16.3	16.7
Payout (%)	25.0	25.0	25.0

Valuations

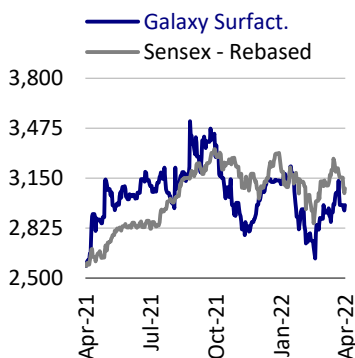
P/E (x)	49.9	35.7	32.7
P/BV (x)	7.2	6.3	5.5
EV/EBITDA (x)	31.9	22.6	20.5
Div. Yield (%)	0.5	0.7	0.8
FCF Yield (%)	(0.6)	2.5	2.7

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	70.9	70.9	70.9
DII	13.8	13.4	13.3
FII	1.9	2.1	3.4
Others	13.4	13.7	12.3

FII Includes depository receipts

Stock Performance (1-year)



Fatty Alcohol price on the boil, may scald margins!

- The price of Fatty Alcohol, a key raw material for GALSURF, surged 52% YoY in 4QFY22 (up 16% QoQ) due to supply-related issues.
- Freight rates have also increased 300-1,000% from the pre-pandemic levels, while lead time still remains high for supply of raw materials (at 2-3 weeks).
- The management has already guided for a normalization of margin to INR16-18/kg from a high of INR20.5/kg in 3QFY21. However, the current high raw material prices may cause a dent in GALSURF's margins in the short-term.
- Nonetheless, despite the likely short-term pressure on margins, we maintain our BUY rating on the stock, given its: a) robust volume growth trajectory, and b) continued focus on expansion, especially in the specialty care products segment, which should underpin margin expansion. We value GALSURF at 40x FY24E EPS of INR91 to arrive at our TP of INR3,632, implying 22% potential upside.

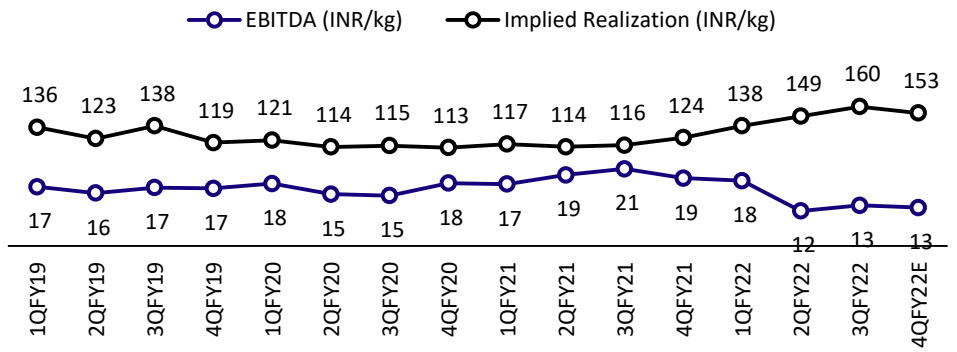
Palm oil: a precursor to Fatty Alcohol

- The whole value chain of extracting Fatty Alcohol consists of two completely different processes: one is through the Palm Kernel Oil (which forms a part of the Oleo chemicals value chain) and the other from the crude oil extraction process. Currently, Oleo chemicals form 70% of the total raw materials of the company while petro products form 30%.
- Southeast Asia (Indonesia and Thailand) produces around 80% of the world's natural Fatty Acids and Fatty Alcohols, with growth of both sectors being mostly driven by developing economies such as India. Detergents, cleaners and soap companies are the largest users of both the products and account for about 48% of Fatty acid demand and 55% of Fatty Alcohol demand.
- Though recovering industrial activities have pushed up the demand for Fatty Alcohol significantly, the price has remained elevated due to supply tightness. Further, [Indonesia's announcement to restrict its outbound shipments of Palm Oil](#) should prolong this supply crunch, in our opinion.

Sustained focus on R&D and higher demand from customers to fuel growth

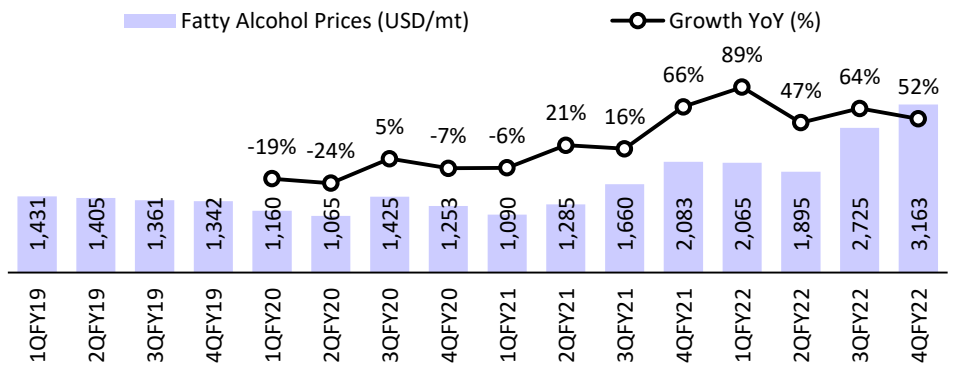
- We model an EBITDA/kg of INR12.7 for 4QFY22 (below the last five-year average of INR16.3/kg), although we expect an improvement to INR18/kg over FY23-24 due to better contribution from the specialty products segment.
- The management has guided for a capex of INR4b over FY22-24E with an outlay of INR1.5b already done for 9MFY22. Expansion of products is likely to be across the board but focus would remain mainly on the specialty care products segment. Further, continued focus on R&D (with an expenditure of INR400-500m every year) and increased wallet share from existing customers are likely to drive volume growth.
- The stock is currently trading at 33x FY24E EPS and 21x FY24E EV/EBITDA. We value the company at 40x FY24E EPS of INR91 to arrive at our TP of INR3,632. We maintain our BUY rating with a 22% potential upside.
- Downside risks to our call: 1) demand may not pick up in congruence to the capacity expansion taking place in the Specialty Care segment; and 2) rising feedstock prices and freight rates may lead to underperformance of the stock.

Exhibit 1: Realization has been strong despite declining EBITDA/kg since 4QFY21



Source: Company, MOFSL

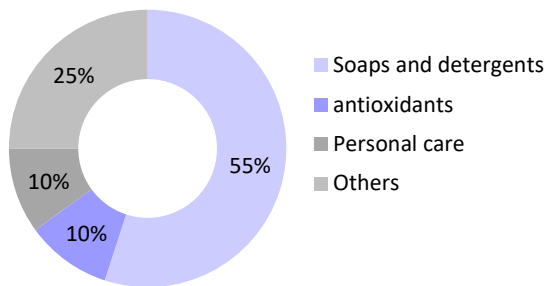
Exhibit 2: Supply crunch and other issues have pushed Fatty Alcohol prices to a record high (since the time data is available)



Source: Company, Bloomberg, MOFSL

Exhibit 3: Fatty Alcohol demand is the most from the soaps and detergents market...

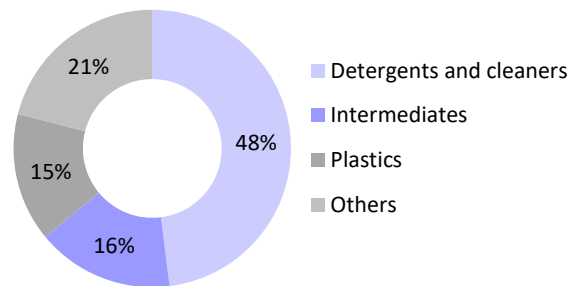
Fatty Alcohol demand (%)



Source: Ofi magazine, MOFSL

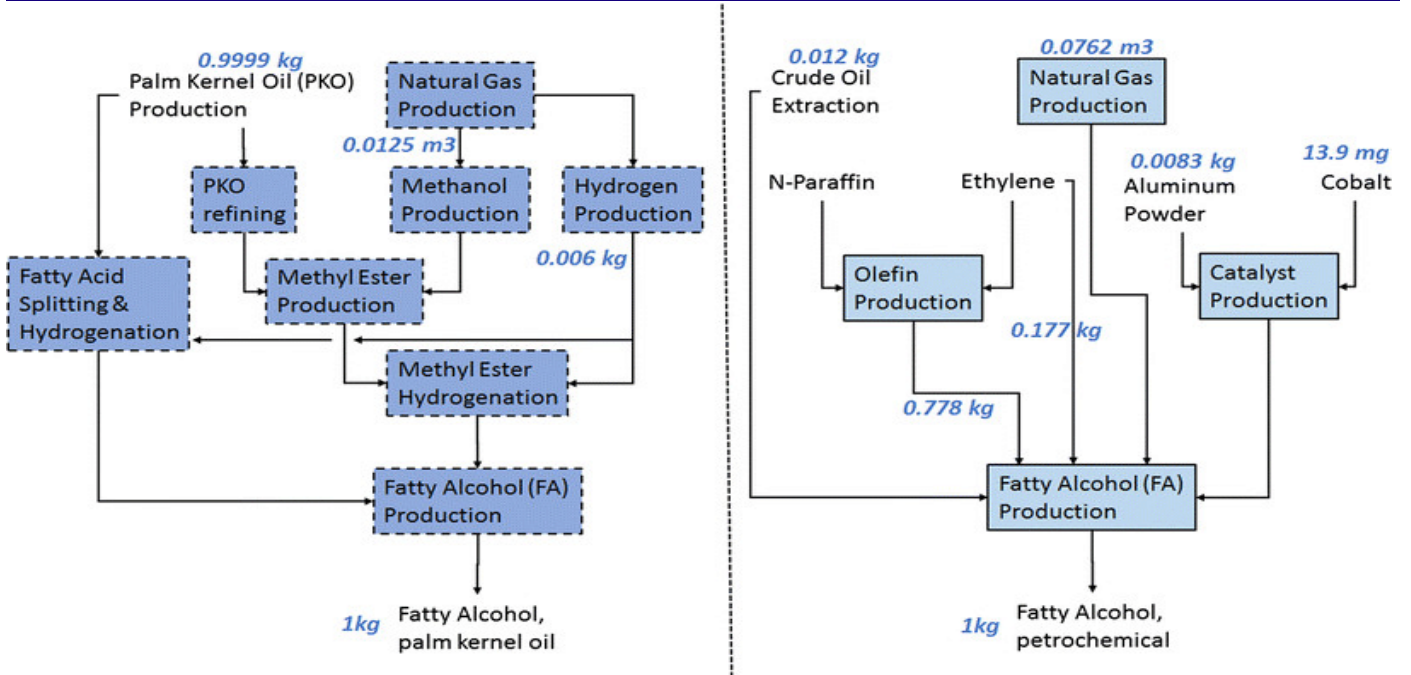
Exhibit 4: ...while Fatty Acids are used predominantly in the detergents and cleaners market

Fatty Acids demand (%)



Source: Ofi magazine, MOFSL

Exhibit 5: Major process-related steps for the various Fatty Alcohol production pathways



Source: Research Gate, MOFSL

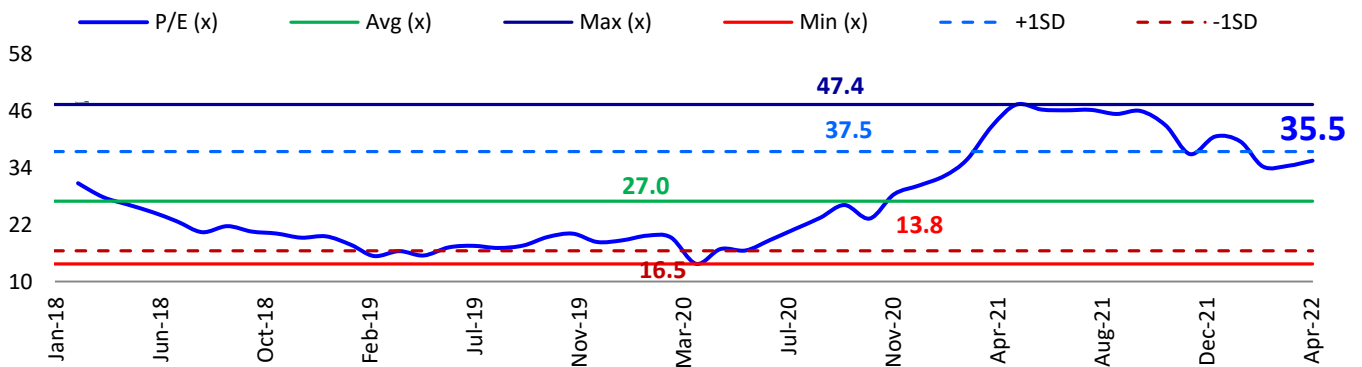
Exhibit 6: Asia Pacific is likely to witness high growth on improved demand for Fatty Alcohols in personal care application

Fatty Alcohol Market - Growth Rate by Region, 2021-2026



Source: Mordor Intelligence, MOFSL

Exhibit 7: On a one-year forward P/E, GALSURF trades at 35.5x, at 31% premium to its long-term average



Source: Company, MOFSL

Story in charts

Exhibit 8: Expect ~10% revenue CAGR over FY21-24...

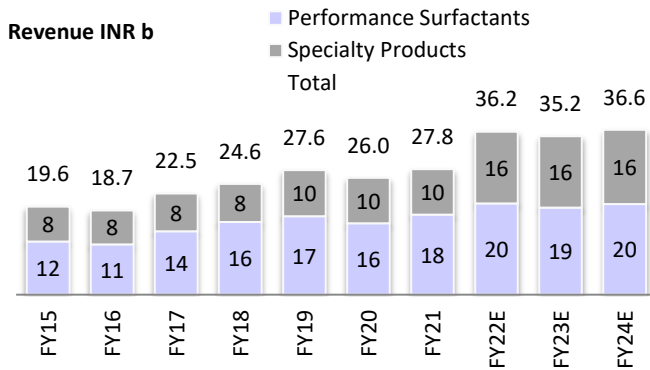


Exhibit 9: ...with specialty contribution improving in the mix

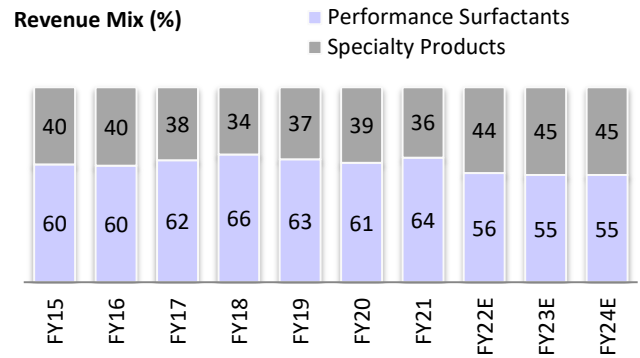


Exhibit 10: Expect capacity utilization to ramp up...

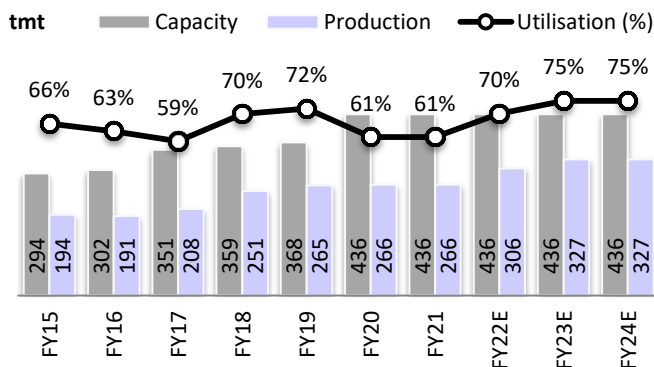


Exhibit 11: ...with higher volume growth in FY22-24

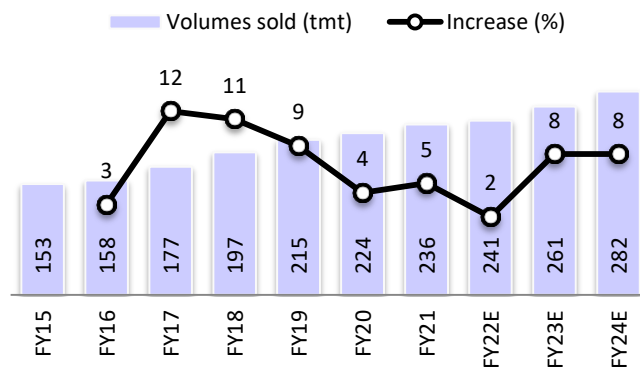


Exhibit 12: EBITDA/mt is set to increase...

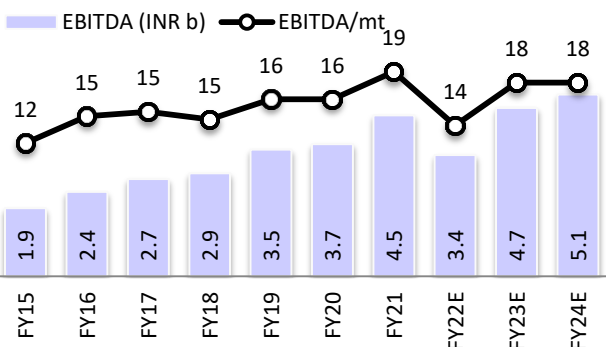


Exhibit 13: ...and PAT margin to normalize

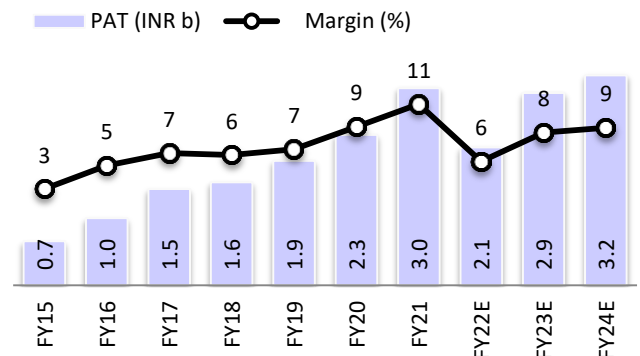


Exhibit 14: GALSURF is likely to generate FCF of INR4.8b...

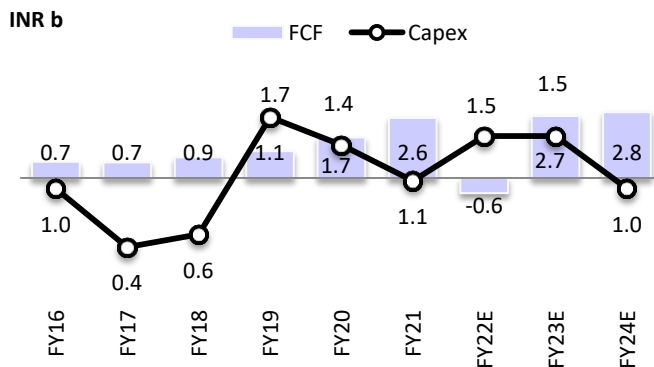
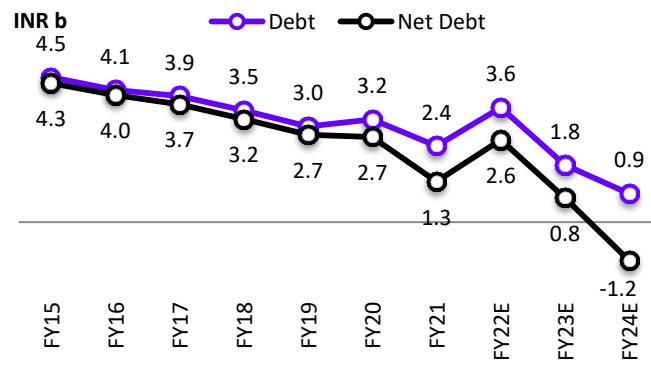


Exhibit 15: ...and become a net cash company by FY24E



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	22,480	24,625	27,630	25,964	27,841	36,205	35,191	36,599
Change (%)	20.1	9.5	12.2	-6.0	7.2	30.0	-2.8	4.0
Gross Margins (%)	32.1	28.9	29.5	33.9	36.3	28.3	31.9	33.1
EBITDA	2,714	2,877	3,534	3,689	4,488	3,379	4,692	5,068
Margin (%)	12.1	11.7	12.8	14.2	16.1	9.3	13.3	13.8
Depreciation	472	485	512	622	740	724	809	880
EBIT	2,242	2,392	3,022	3,067	3,749	2,656	3,883	4,187
Int. and Finance Charges	272	306	300	238	134	126	120	68
Other Income	104	101	47	59	109	145	176	183
PBT bef. EO Exp.	2,074	2,188	2,769	2,888	3,723	2,674	3,939	4,302
PBT after EO Exp.	2,074	2,188	2,769	2,888	3,723	2,674	3,939	4,302
Total Tax	598	607	859	584	702	563	991	1,083
Tax Rate (%)	28.8	27.8	31.0	20.2	18.8	21.1	25.2	25.2
Reported PAT	1,476	1,580	1,910	2,304	3,021	2,111	2,947	3,219
Adjusted PAT	1,476	1,580	1,910	2,304	3,021	2,111	2,947	3,219
Change (%)	43.6	7.1	20.9	20.6	31.1	-30.1	39.6	9.2
Margin (%)	6.6	6.4	6.9	8.9	10.9	5.8	8.4	8.8

Consolidated - Balance Sheet								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	355	355	355	355	355	355	355	355
Total Reserves	5,395	6,833	8,413	10,323	12,660	14,243	16,454	18,868
Net Worth	5,749	7,188	8,767	10,678	13,014	14,598	16,808	19,223
Total Loans	3,929	3,480	2,978	3,196	2,374	3,561	1,781	890
Deferred Tax Liabilities	253	277	320	241	233	233	233	233
Capital Employed	9,930	10,944	12,065	14,115	15,621	18,392	18,822	20,346
Gross Block	8,183	8,548	9,722	11,525	11,945	13,445	14,945	15,945
Less: Accum. Deprn.	3,711	4,148	4,609	5,231	5,971	6,694	7,503	8,384
Net Fixed Assets	4,472	4,399	5,112	6,294	5,974	6,750	7,441	7,561
Goodwill on Consolidation	24	24	25	28	27	27	27	27
Capital WIP	103	249	826	660	1,240	1,240	1,240	1,240
Total Investments	1	1	0	58	435	435	435	435
Curr. Assets, Loans&Adv.	8,273	9,881	9,717	11,081	12,821	16,676	15,999	17,626
Inventory	3,174	3,456	3,513	3,250	4,278	6,014	5,587	5,776
Account Receivables	3,472	4,182	4,268	4,394	4,689	6,098	5,927	6,164
Cash and Bank Balance	261	276	257	542	1,114	1,004	1,023	2,086
Cash	257	271	250	477	815	705	725	1,787
Bank balance	4	5	7	65	299	299	299	299
Loans and Advances	1,366	1,966	1,680	2,894	2,740	3,561	3,461	3,599
Curr. Liability & Prov.	2,942	3,610	3,615	4,005	4,874	6,735	6,319	6,541
Account Payables	2,523	3,278	3,059	2,731	3,770	5,299	4,923	5,090
Other Current Liabilities	309	230	416	1,098	918	1,193	1,160	1,206
Provisions	110	102	140	176	186	242	236	245
Net Current Assets	5,331	6,271	6,102	7,075	7,947	9,941	9,680	11,084
Appl. of Funds	9,931	10,944	12,065	14,115	15,621	18,392	18,822	20,346

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)								
EPS	41.6	44.6	53.9	65.0	85.2	59.6	83.1	90.8
EPS Growth (%)	43.6	7.1	20.9	20.6	31.1	-30.1	39.6	9.2
Cash EPS	54.9	58.3	68.3	82.5	106.1	80.0	106.0	115.6
BV/Share	162.2	202.8	247.3	301.2	367.1	411.8	474.1	542.2
DPS	4.0	3.0	12.0	17.0	18.0	14.9	20.8	22.7
Payout (%)	11.6	8.1	26.9	31.5	21.1	25.0	25.0	25.0
Valuation (x)								
P/E	71.4	66.7	55.2	45.7	34.9	49.9	35.7	32.7
Cash P/E	54.1	51.0	43.5	36.0	28.0	37.2	28.0	25.7
P/BV	18.3	14.7	12.0	9.9	8.1	7.2	6.3	5.5
EV/Sales	4.8	4.4	3.9	4.2	3.8	3.0	3.0	2.8
EV/EBITDA	40.2	37.7	30.6	29.3	23.7	31.9	22.6	20.5
Dividend Yield (%)	0.1	0.1	0.4	0.6	0.6	0.5	0.7	0.8
FCF per share	18.9	25.1	32.4	49.2	72.7	-18.1	75.0	79.7
Return Ratios (%)								
RoE	28.9	24.4	23.9	23.7	25.5	15.3	18.8	17.9
RoCE	17.8	17.3	18.4	19.1	21.1	13.0	16.3	16.7
RoIC	18.0	17.3	19.5	20.5	23.7	14.7	18.3	19.2
Working Capital Ratios								
Fixed Asset Turnover (x)	5.2	5.6	5.8	4.6	4.5	5.7	5.0	4.9
Asset Turnover (x)	2.3	2.3	2.3	1.8	1.8	2.0	1.9	1.8
Inventory (Days)	52	51	46	46	56	61	58	58
Debtor (Days)	56	62	56	62	61	61	61	61
Creditor (Days)	41	49	40	38	49	53	51	51
Leverage Ratio (x)								
Current Ratio	2.8	2.7	2.7	2.8	2.6	2.5	2.5	2.7
Interest Cover Ratio	8.2	7.8	10.1	12.9	27.9	21.1	32.3	61.5
Net Debt/Equity	0.6	0.4	0.3	0.2	0.1	0.2	0.0	-0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	2,074	2,188	2,769	2,888	3,723	2,674	3,939	4,302
Depreciation	472	485	512	622	740	724	809	880
Others	268	249	288	220	79	126	120	68
Direct Taxes Paid	-568	-583	-750	-686	-706	-563	-991	-1,083
(Inc)/Dec in WC	-1,135	-886	11	113	-186	-2,104	281	-342
CF from Operations	1,111	1,454	2,830	3,157	3,651	857	4,157	3,826
Capex	-440	-562	-1,680	-1,414	-1,073	-1,500	-1,500	-1,000
Free Cash Flow	671	891	1,150	1,744	2,578	-643	2,657	2,826
CF from Investments	-440	-562	-1,680	-1,414	-1,073	-1,500	-1,500	-1,000
Inc/(Dec) in Debt	-133	-485	-623	562	-951	1,187	-1,781	-890
Interest Paid	-264	-285	-272	-226	-152	-126	-120	-68
Dividend Paid	-173	-127	-298	-940	-495	-528	-737	-805
CF from Fin. Activity	-570	-897	-1,192	-1,434	-1,650	533	-2,638	-1,763
Inc/Dec of Cash	101	-6	-42	309	928	-110	20	1,062
Opening Balance	147	257	271	250	477	815	705	725
Closing Balance	257	270	251	477	815	705	725	1,787

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No

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