

Galaxy Surfactants

BSE SENSEX
57,061

S&P CNX
17,103

CMP: INR2,921 TP: INR3,632 (+24%)

Buy



Stock Info

Bloomberg	GALSURF IN
Equity Shares (m)	35
M.Cap.(INRb)/(USD\$b)	103.6 / 1.4
52-Week Range (INR)	3600 / 2598
1, 6, 12 Rel. Per (%)	2/-3/-14
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

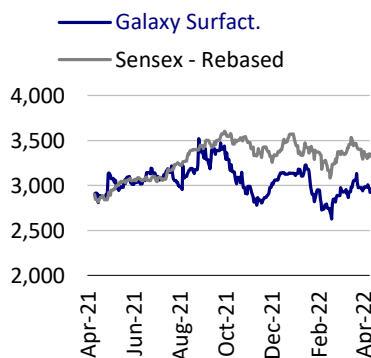
P/E (x)	48.7	34.9	31.9
P/BV (x)	7.0	6.1	5.3
EV/EBITDA (x)	31.2	22.1	20.1
Div. Yield (%)	0.5	0.7	0.8
FCF Yield (%)	(0.6)	2.6	2.7

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)



R&D and process efficiencies to open up new galaxies

GALSURF is one of the leading players in the world of Surfactants and Specialty Care ingredients, exclusively focused on catering to the Home and Personal Care industry. Nine out of the 10 Indian consumers use products which have GALSURF's Surfactants or Specialty Care products at least once in their daily routine.

We visited the company's Taloja facility and R&D center in Turbhe. Below are the key takeaways:

Background

- The Taloja facility was established in CY97 and has a capacity of 153,741mtpa. With more than 350 contract employees/laborers, it is the second largest in terms of total capacity. It is one of the largest sulphonation facilities in India with easy access to the Jawaharlal Nehru Port Trust, Navi Mumbai.
- Over the years, the company has focused on producing products with the highest levels of purity (NDR of more than 99.8%) and safety (dedicated team to take care of process safety), with state-of-the-art automation at its facility. The facility has five/three continuous/batch process plants. There are ~100 products being produced at the facility.
- The management has worked relentlessly in order to achieve its goals. It has brought down the commissioning time of the plant to a single day currently from 270 days in CY97. Commissioning of a plant would include producing a product with feedstock input in the plant till output (end-to-end manufacturing).

Sustained focus on R&D to continue

- GALSURF has a dedicated R&D center in Turbhe, with a personal care formulation and evaluation lab and also an innovation center. It has a team of 74 professionals comprising of doctorates, chemists, and engineers. The Innovation Funnel was adopted in CY07 to consistently diversify product offerings, meet customer needs, and consumer trends
- All formulations are developed in the personal care formulation lab. GALSURF is open to collaborate with brands, later scale it up, and launch the products. The properties of the molecules are being evaluated from the start to finish, a launch package is formulated, and it then goes out to the customer for a trial.
- The evaluation lab is where the testing on a panel is undertaken. The products are tested against a benchmark to see whether the molecules developed adhere to quality standards. On an average, the R&D center rolls out more than 300-350 formulations annually, with success rate at 80-85%.
- Products are being developed, before being formulated at the innovation center. Green catalysts, which are non-toxic, are being developed by GALSURF. The innovation center launches three-to-four products every year. Galaxy SunBeat is a formulation that has been developed in-house and is used for the protection of skin and hair. It also formulates active ingredients and colorants in various personal care formulations against a UV B radiator.

MOTILAL OSWAL
29 April 2022
Sector: Chemicals
Galaxy Surfactants

Buy
CMP: INR2,975 TP: INR3,632 (+22%)

Fatty alcohol price on the rise, may scale margins

The price of ethylene oxide, a key raw material for SLES, rose 12% for FY22 due to supply constraints. However, the price of SLES is expected to remain stable as the company has a long-term contract with the supplier. The management has also indicated that the company is planning to invest in R&D to develop new products.

Valuation and view

The management has guided at a capex of INR4b over FY22-24, with an outlay of INR1.5b for 9MFY22. Expansion of products across the board is likely, but the focus would remain mainly on the Specialty Care Products segment.

The stock is currently trading at 32x FY24E EPS and 20x FY24E EV/EBITDA. We value the company at 40x FY24E EPS, or INR91, to arrive at our TP of INR3,632. We maintain our **Buy** rating with a potential upside of 24%.

The 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.

- Continued focus on R&D (with an annual expenditure of INR400-500m) and increased wallet share from existing customers will drive volume growth.
- Valuation and view**
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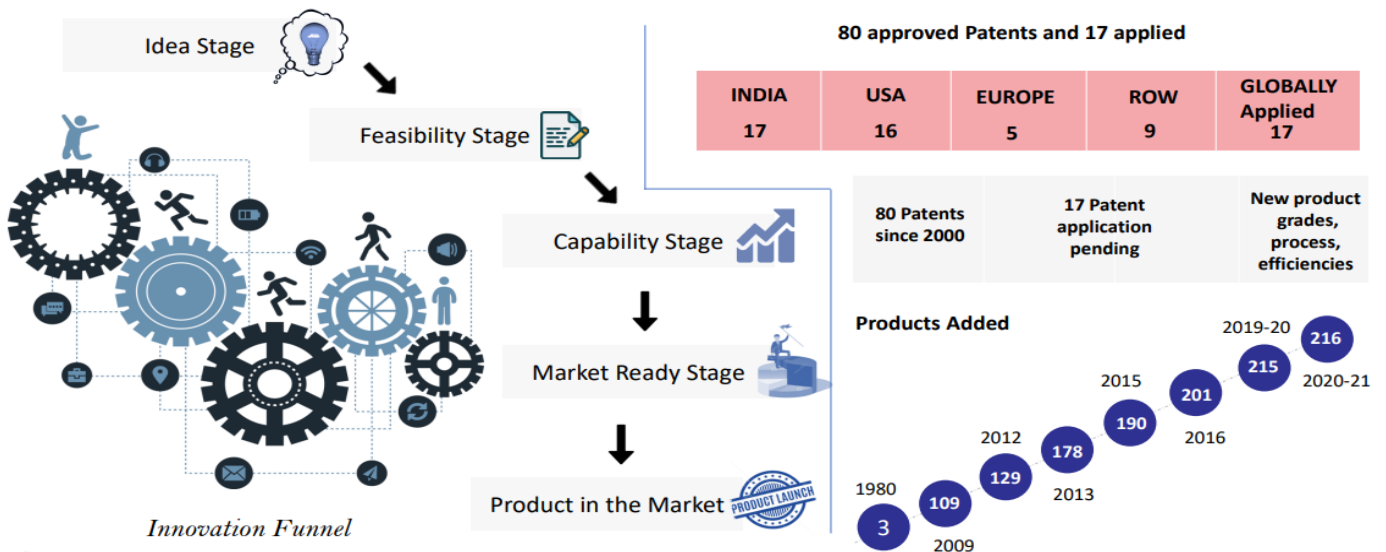
Exhibit 1: Seven state of the art facilities of GALSURF across geographies

Location	No. of Units	Installed Capacity	Details
Tarapur, Maharashtra	3	33,647 MTPA	<ul style="list-style-type: none"> 1 pilot plant for scale up and commercialisation of new products rolling out from R&D activities Easy access to the Jawaharlal Nehru Port Trust, Navi Mumbai
Taloja, Maharashtra	1	153,741 MTPA	<ul style="list-style-type: none"> One of the largest sulfation facilities in India Easy access to the Jawaharlal Nehru Port Trust, Navi Mumbai
Jhagadia, Gujarat*	1	131,000 MTPA	<ul style="list-style-type: none"> Located close to raw material source ethylene oxide
Suez, Egypt*	1	117,500 MTPA	<ul style="list-style-type: none"> Located in the Attaqa Public Free Zone, exempt from all direct and indirect taxes Access to the Suez Canal, can address AMET, Europe and Americas (North and South) markets
New Hampshire, USA	1	600 MTPA	<ul style="list-style-type: none"> Step-down Subsidiary - Tri-K Industries owns and operates for different grades of proteins for cosmetic applications

*Environmental clearances for expansion and additional land available at Jhagadia and Suez plants

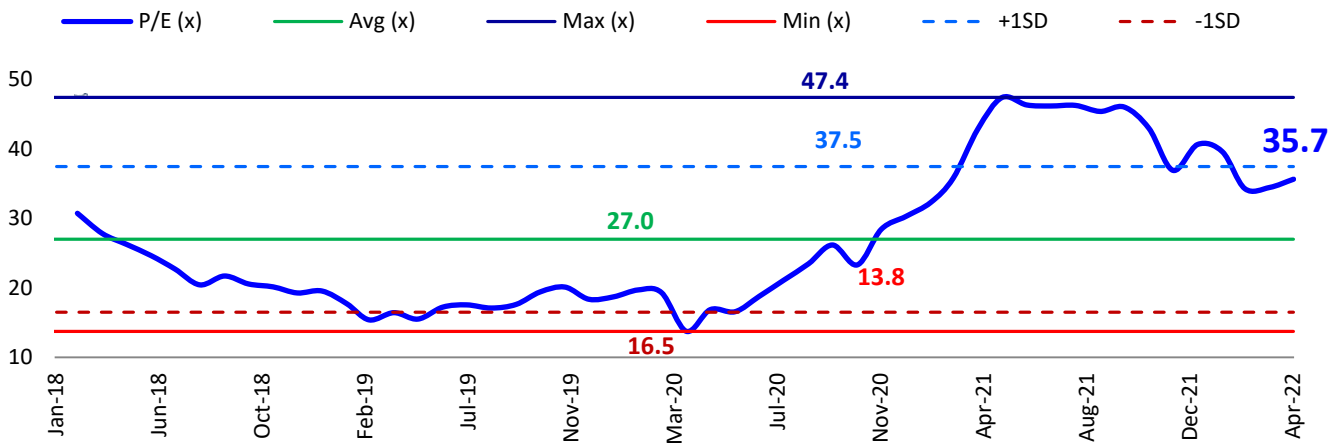
Source: Company, MOFSL

Exhibit 2: The Innovation Funnel has helped GALSURF secure 80 patent approvals till date



Source: Company, MOFSL

Exhibit 3: On a one-year forward P/E, GALSURF trades at 35.7x, at a 32% premium to its long-term average



Source: Company, MOFSL

Story in charts

Exhibit 4: Expect ~10% revenue CAGR over FY21-24...

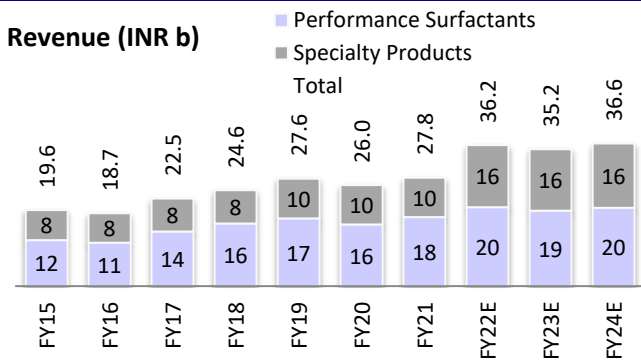


Exhibit 5: ...with Specialty contribution improving in the mix

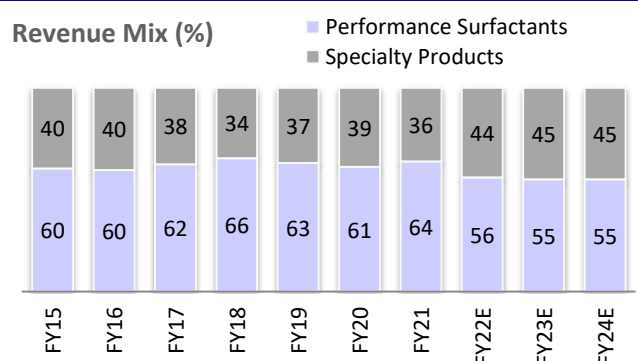


Exhibit 6: Expect capacity utilization to ramp up...

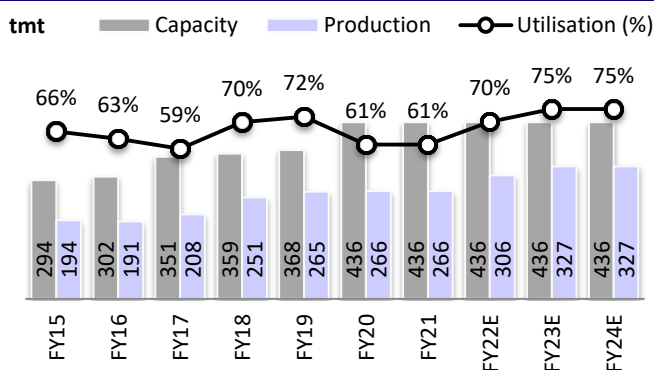


Exhibit 7: ...with higher volume growth in FY22-24

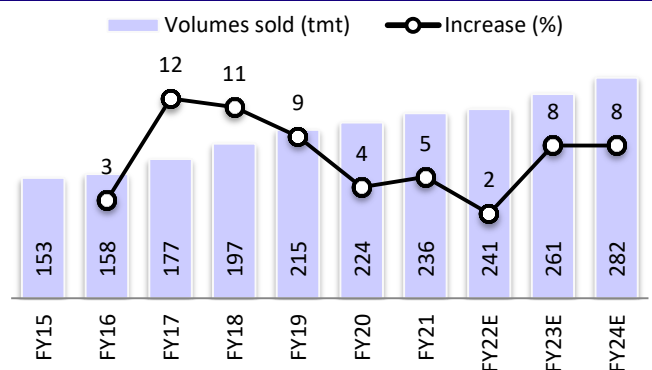


Exhibit 8: EBITDA/mt is set to increase...

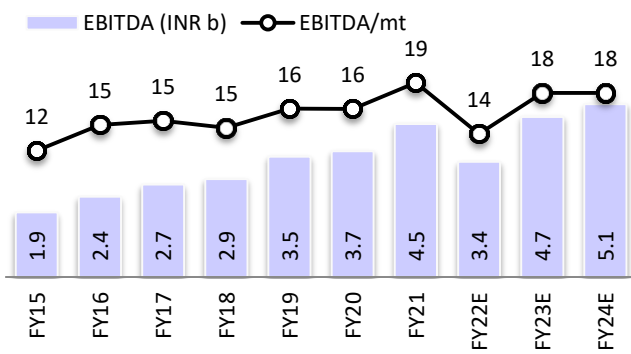


Exhibit 9: ...and PAT margin is likely to normalize

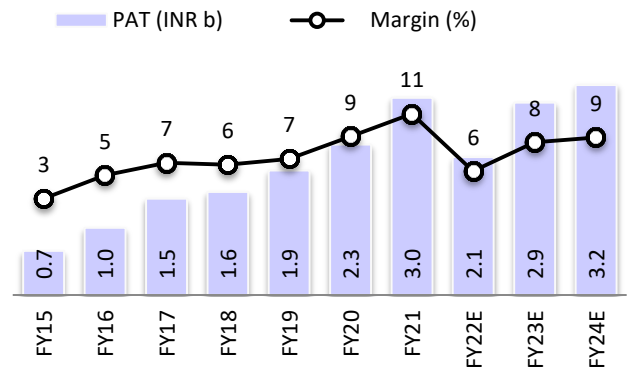


Exhibit 10: GALSURF is likely to generate an FCF of INR4.8b...

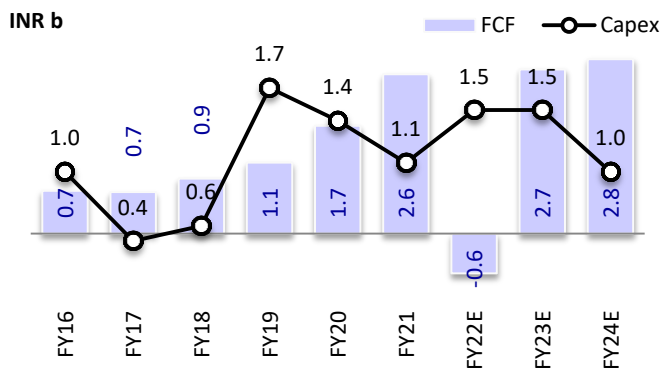
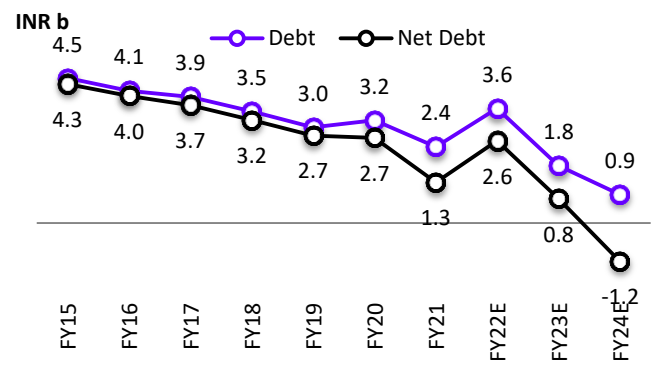


Exhibit 11: ...and become a net cash company by FY24E



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 Margin (%)	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, and 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 and 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	69.6	65.1	53.8	44.6	34.0	48.7	34.9	31.9
Cash P/E	52.8	49.8	42.4	35.1	27.3	36.3	27.4	25.1
P/BV	17.9	14.3	11.7	9.6	7.9	7.0	6.1	5.3
EV/Sales	4.7	4.3	3.8	4.1	3.7	2.9	2.9	2.8
EV/EBITDA	39.2	36.8	29.9	28.6	23.2	31.2	22.1	20.1
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 Coverage Ratio	8.2	7.8	10.1	12.9	27.9	21.1	32.3	61.5
Net Debt/Equity ratio	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. in 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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