

Galaxy Surfactants

Estimate changes	↔
TP change	↔
Rating change	↔

Bloomberg	GALSURF IN
Equity Shares (m)	35
M.Cap.(INRb)/(USDb)	95.5 / 1.2
52-Week Range (INR)	3600 / 2561
1, 6, 12 Rel. Per (%)	-4/-1/-22
12M Avg Val (INR M)	115

Financials & Valuations (INR bn)

Y/E March	FY22	FY23E	FY24E
Sales	36.9	34.1	35.5
EBITDA	4.0	4.6	4.9
PAT	2.6	2.9	3.1
EPS (INR)	74	81	88
EPS Gr. (%)	(13)	9	9
BV/Sh.(INR)	444	505	572

Ratios

Net D:E	0.2	0.0	(0.1)
RoE (%)	18.3	17.0	16.4
RoCE (%)	15.5	14.9	15.3
Payout (%)	24.3	24.3	24.3

Valuations

P/E (x)	36.4	33.5	30.6
P/BV (x)	6.1	5.3	4.7
EV/EBITDA (x)	24.6	21.2	19.2
Div. Yield (%)	0.7	0.7	0.8
FCF Yield (%)	(1.6)	3.2	2.8

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	70.9	70.9	70.9
DII	13.4	13.3	13.0
FII	2.1	2.4	3.5
Others	13.7	13.4	12.6

FII Includes depository receipts

CMP: INR2,692

TP: INR3,525 (+31%)

Buy

Inventory gain and improvement in product mix aids margin

- GALSURF reported a beat on our 4QFY22 estimates, with EBITDA (INR/kg) at INR25.2 (98% higher than our estimate, +35% YoY) on inventory gains, new contract terms, and improvement in the product mix. Total volume was flat QoQ (-9% YoY) at 57.5tmt (v/s 58tmt in 3QFY22).
- The management said the growth trajectory in India has been scaling down every quarter, with the first signs of a cutback in demand being seen. It is confident that once prices of palm kernel oil normalize, demand in India will grow at 8-10%. Outbound logistical issues eased in 4QFY22, but have again become a challenge due to the China-induced lockdowns and the war between Russia and Ukraine.
- Robust performance in the US market was driven by expansion of its US facility just before the COVID-19 pandemic and was aided by a sharp expansion in margin in 4QFY22. **The guidance for EBITDA/mt remains unchanged at INR16-18/kg in the medium term from current levels**, with a bias towards the higher limit.
- Fatty Alcohol prices rose 10% QoQ to USD2,862/mt (up 38% YoY) in 4QFY22. However, it has stabilized at current levels. Its plants at Tarapur and Jhagadia manufacture mild Surfactants and non-toxic preservatives, with some units operationalized in 4QFY22 and full operationalization expected in 1QFY23.
- Continued focus on R&D (with an annual outlay of INR400-500m) and increased wallet share of existing customers is likely to drive volume growth and expand EBITDA margin. Volume has grown by ~6% CAGR over the last five years. We build in a similar growth over FY22-24 as well. **We maintain our Buy rating with a TP of INR3,525 per share, implying a 31% potential upside.**

Margin rebounds sharply; revenue marginally above our estimate

- Revenue stood at INR10.5b (up 34% YoY and 13% QoQ).
- EBITDA grew 23% YoY and 90% QoQ to INR1.5b (76% higher than our estimate).
- Gross margin stood at 33% (up 550bp QoQ), with EBITDAM at 13.8% in 4QFY22 (est. 8.3%).
- PAT stood at INR984m (up 25% YoY and 116% QoQ).
- **In FY22**, revenue rose 32% YoY to INR36.9b, with EBITDA at INR4b (-11%) and PAT at INR2.6b (-13%).
- GALSURF declared a final dividend of INR18/share in FY22.

Valuation and view – maintain Buy

- In FY22, realization stood at INR157/kg, with gross margin at INR46.8/kg (+10% YoY) and EBITDA/kg at INR17.1 (down 10% from INR19/kg in FY21). Total volumes remained flat YoY at 234tmt, with the same for Performance Surfactants at 149tmt (-4% YoY) and Specialty Care products at 85tmt (+6% YoY).
- Capex guidance for FY23E stood at INR1.5-2b, with an outlay of INR1.55b in FY22. Expansion in products will be across the board, but the focus will be mainly on Specialty Care products.
- The stock is currently trading at 31x FY24E EPS and 19x FY24E EV/EBITDA. We value the stock at 40x FY24E EPS, or INR88, to arrive at our TP of INR3,525. We maintain our Buy rating with a potential upside of 31%.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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

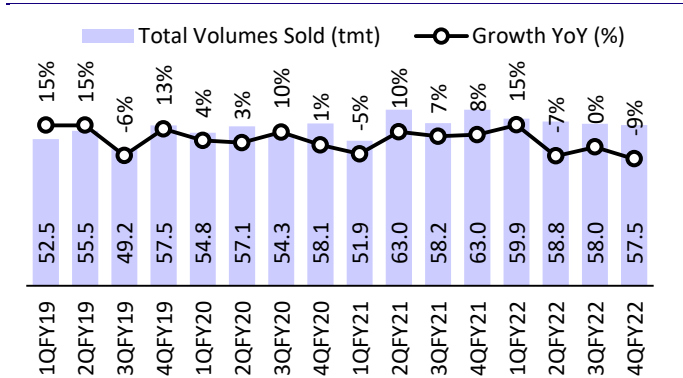
Consolidated quarterly snapshot

(INR m)

Y/E March	FY21				FY22				FY21	FY22	FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Gross Sales	6,072	7,187	6,747	7,835	8,264	8,773	9,291	10,529	27,841	36,857	9,877	7%
YoY Change (%)	-8.7	10.8	7.8	19.3	36.1	22.1	37.7	34.4	7.2	32.4	26.1	
Gross Margin (%)	34%	36%	38%	37%	32%	27%	27%	33%	36%	30%	28%	
EBITDA	905	1,215	1,195	1,174	1,085	709	764	1,450	4,488	4,007	822	76%
Margin (%)	14.9	16.9	17.7	15.0	13.1	8.1	8.2	13.8	16.1	10.9	8.3	
Depreciation	164	167	169	240	168	181	177	184	740	711	197	-7%
Interest	48	32	24	30	29	37	28	34	134	129	32	7%
Other Income	7	46	30	26	45	50	18	12	109	125	32	-62%
PBT	699	1,062	1,032	930	933	541	576	1,244	3,723	3,293	625	99%
Tax	134	245	180	143	164	122	120	260	702	665	158	
Rate (%)	19.2	23.0	17.4	15.4	17.6	22.5	20.8	20.9	18.8	20.2	25.3	
Reported PAT	565	817	852	787	768	419	456	984	3,021	2,628	467	111%
YoY Change (%)	7.5	21.9	77.6	25.3	36.0	-48.7	-46.5	25.1	31.1	-13.0	-40.7	
Margin (%)	9.3	11.4	12.6	10.0	9.3	4.8	4.9	9.3	10.9	7.1	4.7	
Segmental Volumes (tmt)	51.9	63.0	58.2	63.0	59.9	58.8	58.0	57.5	236	234	65	-11%
Performance Surfactants	36.4	41.4	36.6	41.7	38.8	38.0	37.0	35.4	156	120	42	-16%
Specialty Care products	15.5	21.6	21.6	21.3	21.1	20.8	21.0	22.1	80	65	22	-1%
Operating performance (INR/kg)												
Implied realization (INR/kg)	117.0	114.0	115.9	124.4	138.0	149.2	160.1	183.1	117.9	157.4	152.8	20%
Gross margin (INR/kg)	40.0	41.4	43.7	45.4	43.8	39.6	44.0	60.4	42.7	46.8	42.7	42%
EBITDA (INR/kg)	17.4	19.3	20.5	18.6	18.1	12.0	13.2	25.2	19.0	17.1	12.7	98%

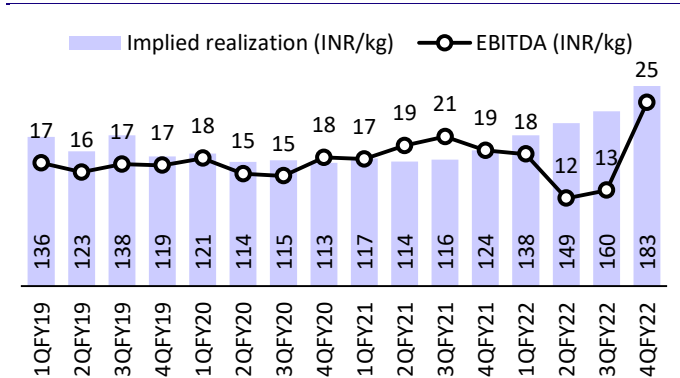
4QFY22 in charts

Exhibit 1: Volumes were flat QoQ, led by a dip in the Performance products segment



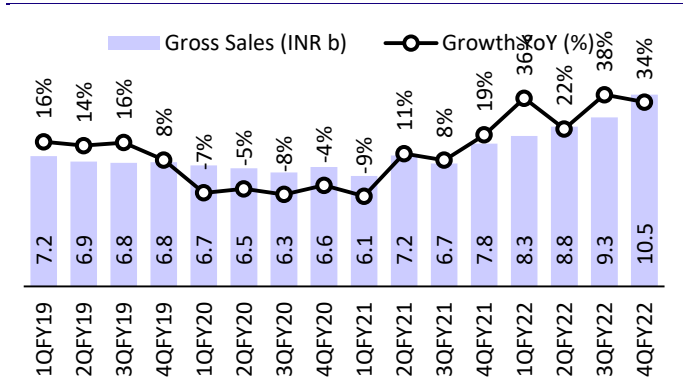
Source: Company, MOFSL

Exhibit 2: Specialty Care product volumes improve, resulting in better margin/kg



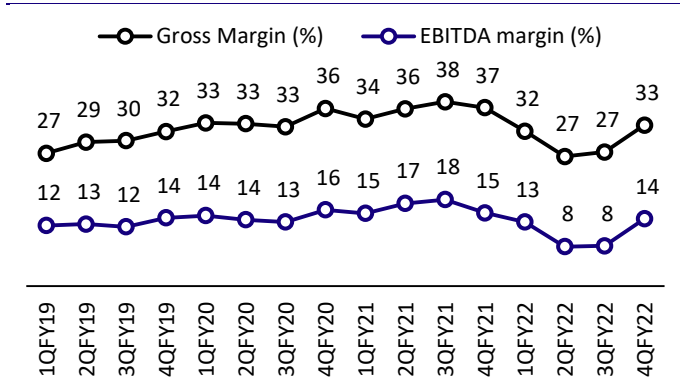
Source: Company, MOFSL

Exhibit 3: Gross sales rose 13% QoQ on the back of better realization QoQ (to INR183/kg)...



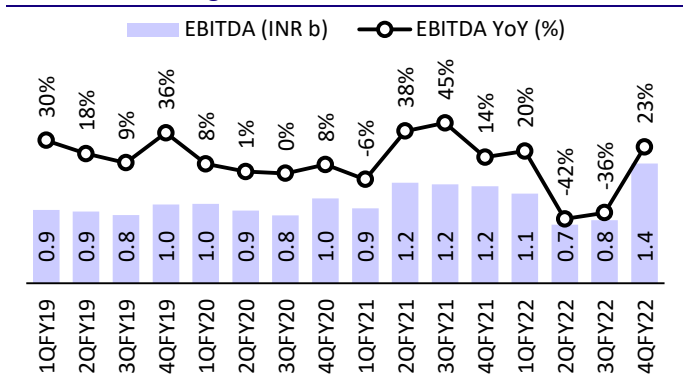
Source: Company, MOFSL

Exhibit 4: ...with a sharp improvement in margin due to a superior mix, realizations, and recoveries



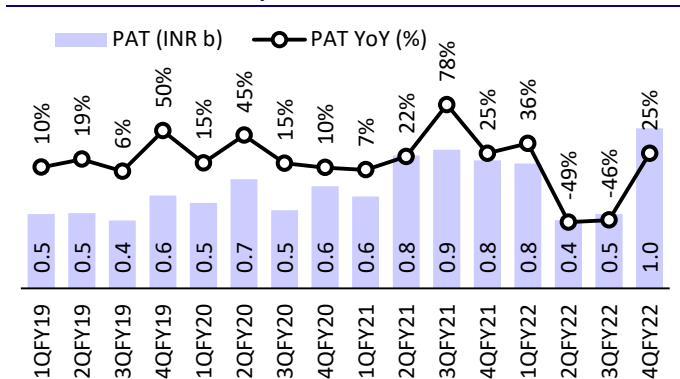
Source: Company, MOFSL

Exhibit 5: EBITDA growth rose 90% QoQ



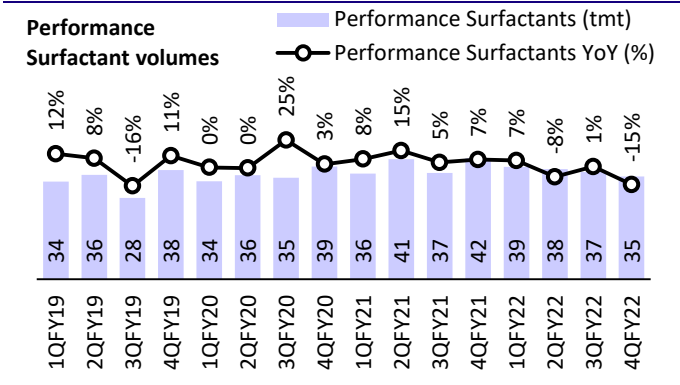
Source: Company, MOFSL

Exhibit 6: ...with PAT up 116%



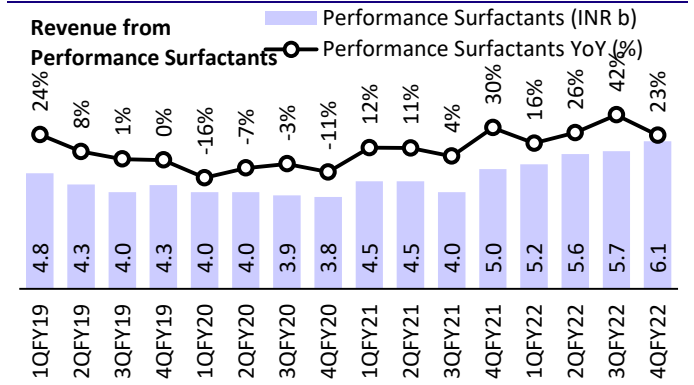
Source: Company, MOFSL

Exhibit 7: Performance Surfactant volumes fell 4% QoQ...



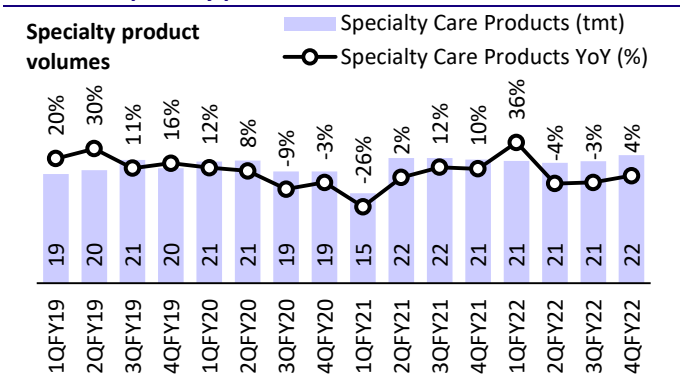
Source: Company, MOFSL

Exhibit 8: ...although segmental revenue is up 7%



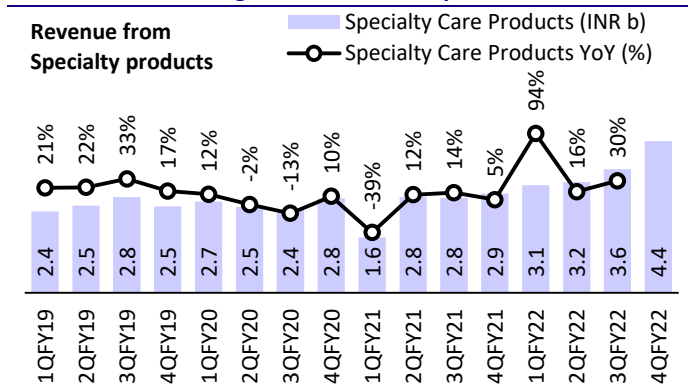
Source: Company, MOFSL

Exhibit 9: Specialty product volumes rose 5% QoQ...



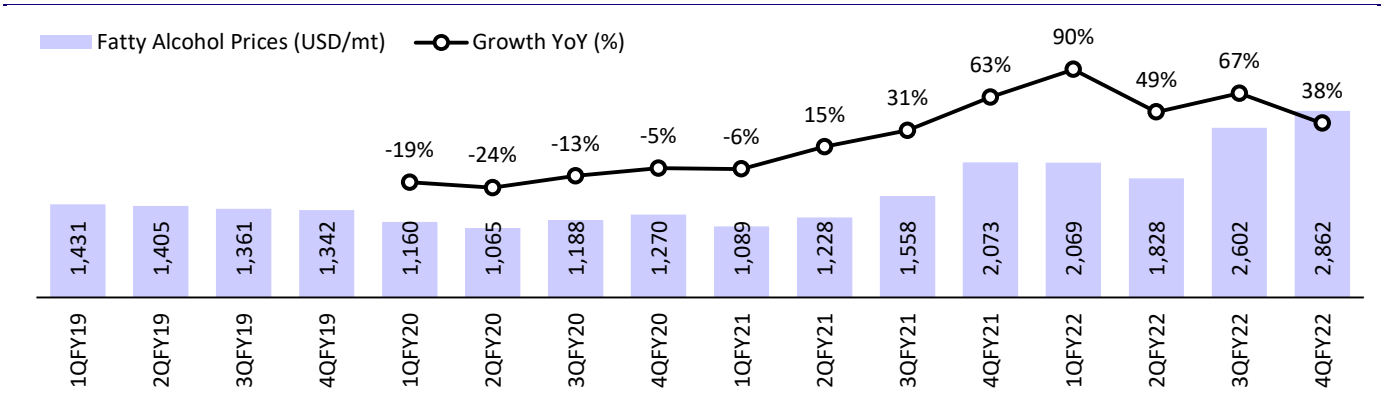
Source: Company, MOFSL

Exhibit 10: ...with segmental revenue up 23%



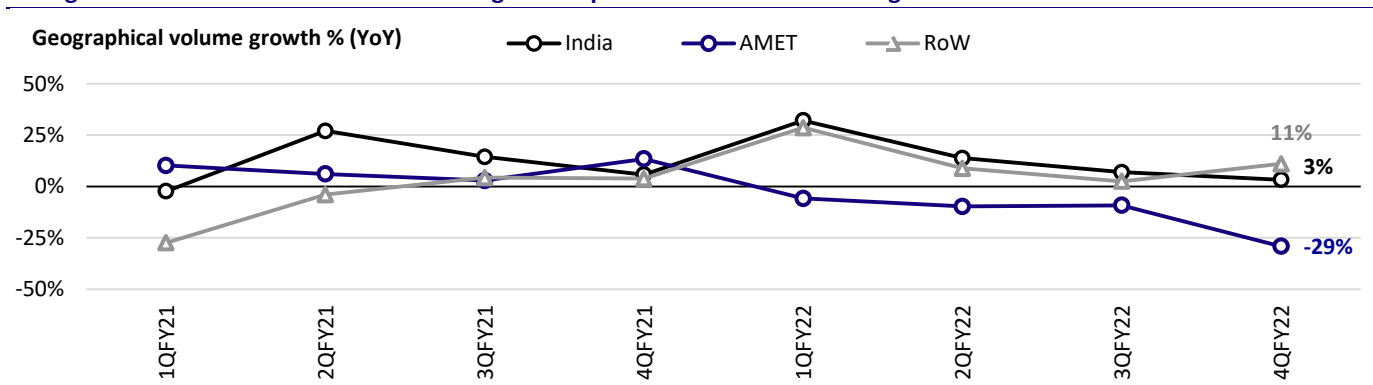
Source: Company, MOFSL

Exhibit 11: Fatty Alcohol prices rose 38% YoY and 10 QoQ. At present, prices are similar to 4QFY22 levels



Source: Company, MOFSL

Exhibit 12: India/RoW records a volume growth of 3%/11% YoY in 4QFY22. AMET clocks a 29% YoY decline in volume, owing to demand cutbacks and downtrading that impacted the Performance segment



Source: Company, MOFSL

Key highlights from the management interaction

Outlook for FY23

- EBITDA guidance of INR16-18/kg remains intact, with a bias towards the upward end of the range provided by the management.
- Cutback in demand, especially in the Performance products segment, is a risk that the management will address in FY23.
- Some capex with respect to mild Surfactants and non-toxic preservatives got operationalized in 4QFY22, with full operationalization in 1QFY23.
- In FY23, the GALSURF doesn't expect a significant change in the regional sales mix, but expects AMET performance to remain muted.

Current business environment

- Shortages and rising prices of important feedstock affected performance in 9MFY22, exacerbated by the COVID-induced lockdowns in China and the war between Russia and Ukraine in 4QFY22.
- However, a U-shaped recovery was possible in 4QFY22 due to:
 - Better mix and higher share of Specialty in total revenue led to its highest ever EBITDA/kg. However, volumes declined in 4QFY22.
- The Specialty Care portfolio has started to yield results, with economies opening up and capex undertaken in this segment in the recent past.
- The US market has grown by 50-55% in FY22, with the management expecting the same level of growth to continue in the Specialty Care products segment.
- Fatty Alcohol prices had risen significantly, but then prices started to correct. At present, the prices of Fatty Alcohol stand at USD2,800/mt. The management expects volatility in Palm Kernel Oil to continue.

Capex guidance

- Capex guidance for FY23 stands at INR1.5-2b, with INR1.6b incurred in FY22.
- Capex for FY22 was used for various Specialty products in Egypt and India (for the manufacture of mild Surfactants and non-toxic preservatives at Jhagadia) and a R&D center at Tarapur (pilot plant also set up).

Story in charts

Exhibit 13: Specialty products to have a bigger share...

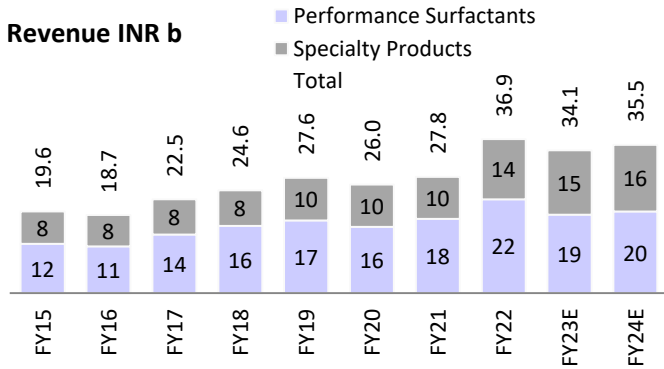


Exhibit 14: ...with EBITDA/MT set to increase to INR18

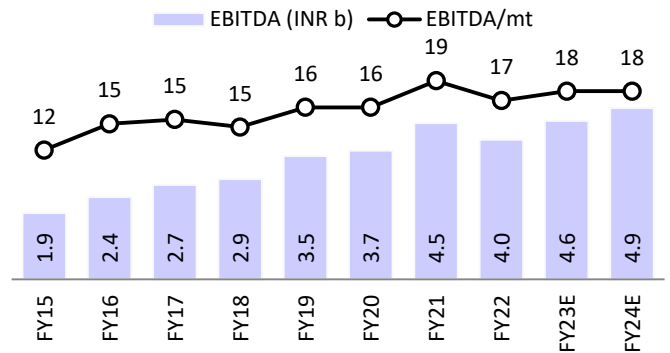


Exhibit 15: Expect capacity utilization to ramp up...

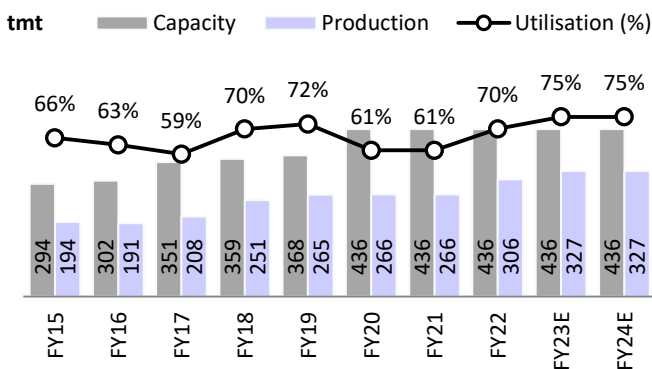


Exhibit 16: ...with higher volume growth in FY23-24

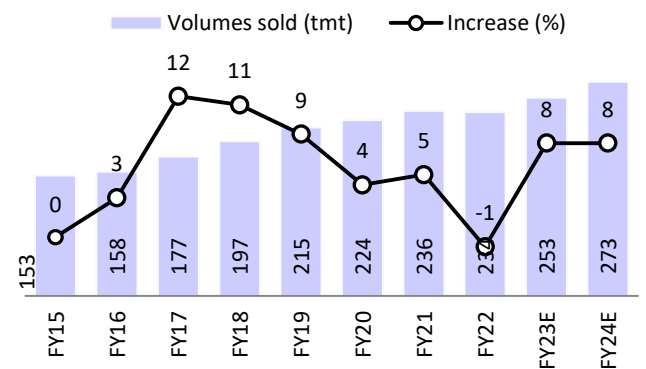


Exhibit 17: One-year forward P/E trades at 34.6x

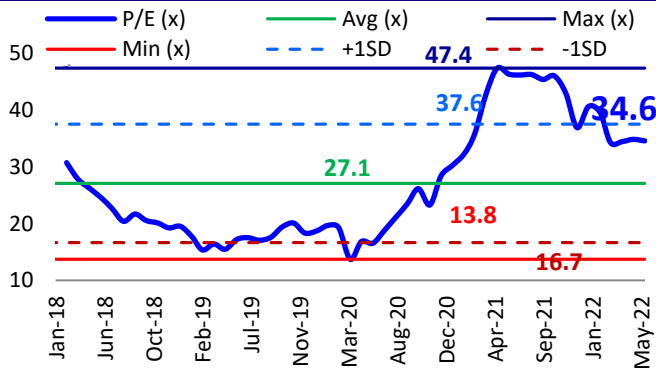


Exhibit 18: Expect PAT margin to normalize

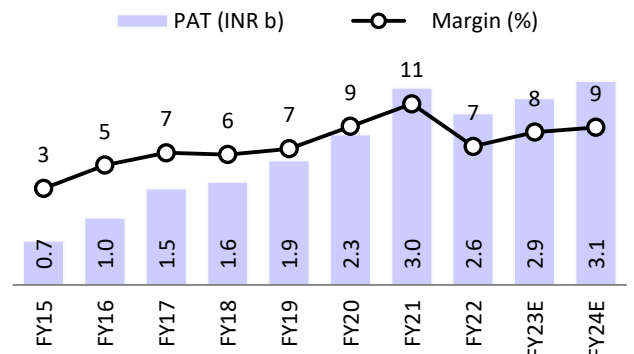


Exhibit 19: GALSURF is likely to generate an FCF of INR5.8b...

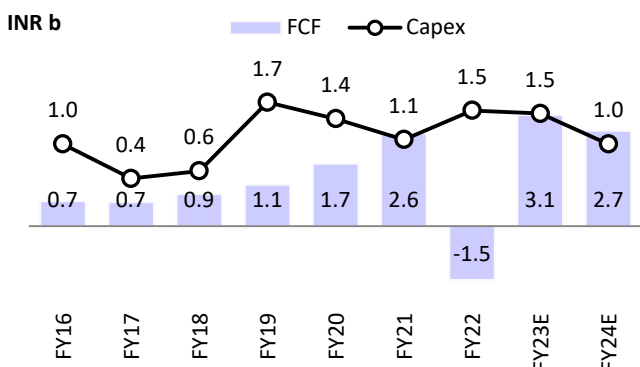
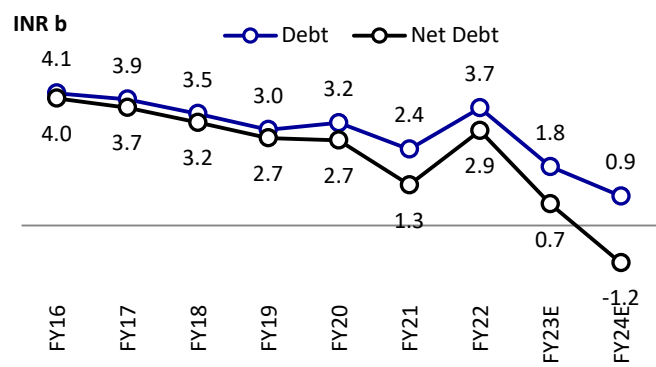


Exhibit 20: ...and become a net cash company by FY24E



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement

	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	22,480	24,625	27,630	25,964	27,841	36,857	34,149	35,515
Change (%)	20.1	9.5	12.2	-6.0	7.2	32.4	-7.3	4.0
Gross Margin (%)	32.1	28.9	29.5	33.9	36.3	29.8	31.9	33.1
EBITDA	2,714	2,877	3,534	3,689	4,488	4,007	4,553	4,917
Margin (%)	12.1	11.7	12.8	14.2	16.1	10.9	13.3	13.8
Depreciation	472	485	512	622	740	711	779	851
EBIT	2,242	2,392	3,022	3,067	3,749	3,297	3,774	4,067
Int. and Finance Charges	272	306	300	238	134	129	124	70
Other Income	104	101	47	59	109	125	171	178
PBT bef. EO Exp.	2,074	2,188	2,769	2,888	3,723	3,293	3,821	4,174
PBT after EO Exp.	2,074	2,188	2,769	2,888	3,723	3,293	3,821	4,174
Total Tax	598	607	859	584	702	665	962	1,051
Tax Rate (%)	28.8	27.8	31.0	20.2	18.8	20.2	25.2	25.2
Reported PAT	1,476	1,580	1,910	2,304	3,021	2,628	2,860	3,124
Adjusted PAT	1,476	1,580	1,910	2,304	3,021	2,628	2,860	3,124
Change (%)	43.6	7.1	20.9	20.6	31.1	-13.0	8.8	9.2
Margin (%)	6.6	6.4	6.9	8.9	10.9	7.1	8.4	8.8

Consolidated Balance Sheet

	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	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	15,389	17,554	19,919
Net Worth	5,749	7,188	8,767	10,678	13,014	15,744	17,909	20,274
Total Loans	3,929	3,480	2,978	3,196	2,374	3,660	1,830	915
Deferred Tax Liabilities	253	277	320	241	233	249	249	249
Capital Employed	9,930	10,944	12,065	14,115	15,621	19,652	19,988	21,438
Gross Block	8,183	8,548	9,722	11,525	11,945	12,828	14,328	15,328
Less: Accum. Deprn.	3,711	4,148	4,609	5,231	5,971	6,681	7,460	8,311
Net Fixed Assets	4,472	4,399	5,112	6,294	5,974	6,146	6,867	7,017
Goodwill on Consolidation	24	24	25	28	27	28	28	28
Capital WIP	103	249	826	660	1,240	2,055	2,055	2,055
Total Investments	1	1	0	58	435	5	5	5
Curr. Assets, Loans, and Adv.	8,273	9,881	9,717	11,081	12,821	17,773	16,787	18,290
Inventory	3,174	3,456	3,513	3,250	4,278	7,118	6,413	6,630
Account Receivables	3,472	4,182	4,268	4,394	4,689	6,380	5,912	6,148
Cash and Bank Balance	261	276	257	542	1,114	711	1,159	2,077
Cash	257	271	250	477	815	638	1,085	2,003
Bank balance	4	5	7	65	299	74	74	74
Loans and Advances	1,366	1,966	1,680	2,894	2,740	3,563	3,304	3,435
Curr. Liability and Prov.	2,942	3,610	3,615	4,005	4,874	6,353	5,754	5,955
Account Payables	2,523	3,278	3,059	2,731	3,770	5,189	4,675	4,833
Other Current Liabilities	309	230	416	1,098	918	1,012	937	975
Provisions	110	102	140	176	186	153	142	148
Net Current Assets	5,331	6,271	6,102	7,075	7,947	11,419	11,034	12,334
Appl. of Funds	9,931	10,944	12,065	14,115	15,621	19,652	19,988	21,438

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	41.6	44.6	53.9	65.0	85.2	74.1	80.7	88.1
EPS Growth (%)	43.6	7.1	20.9	20.6	31.1	-13.0	8.8	9.2
Cash EPS	54.9	58.3	68.3	82.5	106.1	94.2	102.6	112.1
BV/Share	162.2	202.8	247.3	301.2	367.1	444.1	505.2	571.9
DPS	4.0	3.0	12.0	17.0	18.0	18.0	19.6	21.4
Payout (%)	11.6	8.1	26.9	31.5	21.1	24.3	24.3	24.3
Valuation (x)								
P/E	64.9	60.6	50.2	41.6	31.7	36.5	33.5	30.7
Cash P/E	49.2	46.4	39.6	32.7	25.5	28.7	26.3	24.1
P/BV	16.7	13.3	10.9	9.0	7.4	6.1	5.3	4.7
EV/Sales	4.4	4.0	3.6	3.8	3.5	2.7	2.8	2.7
EV/EBITDA	36.6	34.4	27.9	26.7	21.6	24.6	21.2	19.2
Dividend Yield (%)	0.1	0.1	0.4	0.6	0.7	0.7	0.7	0.8
FCF per share	18.9	25.1	32.4	49.2	72.7	-42.3	87.3	75.1
Return Ratios (%)								
RoE	28.9	24.4	23.9	23.7	25.5	18.3	17.0	16.4
RoCE	17.8	17.3	18.4	19.1	21.1	15.5	14.9	15.3
RoIC	18.0	17.3	19.5	20.5	23.7	17.7	16.8	17.9
Working Capital Ratio								
Fixed Asset Turnover (x)	5.2	5.6	5.8	4.6	4.5	6.1	5.2	5.1
Asset Turnover (x)	2.3	2.3	2.3	1.8	1.8	1.9	1.7	1.7
Inventory (Days)	52	51	46	46	56	70	69	68
Debtor (Days)	56	62	56	62	61	63	63	63
Creditor (Days)	41	49	40	38	49	51	50	50
Leverage Ratio (x)								
Current Ratio	2.8	2.7	2.7	2.8	2.6	2.8	2.9	3.1
Interest Coverage Ratio	8.2	7.8	10.1	12.9	27.9	25.7	30.6	58.1
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	FY22	FY23E	FY24E
OP/(Loss) before Tax	2,074	2,188	2,769	2,888	3,723	3,293	3,821	4,174
Depreciation	472	485	512	622	740	711	779	851
Others	268	249	288	220	79	90	124	70
Direct Taxes Paid	-568	-583	-750	-686	-706	-594	-962	-1,051
(Inc.)/Dec. in WC	-1,135	-886	11	113	-186	-3,450	833	-383
CF from Operations	1,111	1,454	2,830	3,157	3,651	49	4,595	3,662
Capex	-440	-562	-1,680	-1,414	-1,073	-1,547	-1,500	-1,000
Free Cash Flow	671	891	1,150	1,744	2,578	-1,498	3,095	2,662
CF from Investments	-426	-546	-1,673	-1,511	-1,647	-841	-1,500	-1,000
Inc./(Dec.) in Debt	-133	-485	-623	562	-951	941	-1,830	-915
Interest Paid	-264	-285	-272	-226	-152	-131	-124	-70
Dividend Paid	-173	-127	-298	-940	-495	-142	-694	-759
CF from Fin. Activity	-570	-897	-1,192	-1,434	-1,650	592	-2,648	-1,743
Inc./Dec. in Cash	115	11	-36	212	354	-201	448	918
Opening Balance	147	257	271	250	477	815	637	1,085
Closing Balance	257	270	251	477	815	637	1,085	2,003

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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