

Galaxy Surfactants

Highest volumes in a quarter

Our BUY recommendation on GALSURF with a price target of INR 2,265 is premised on (1) stickiness of business as 55% of the revenue mix comes from MNCs, (2) stable EBITDA margin at >12% since fluctuations in raw material costs (RMC) are easily passed on to customers, and (3) strong return ratios (RoE/RoIC of 24/20% in FY22E). 2Q EBITDA/APAT was 9/21% higher than estimates due to a 7% rise in sales and higher-than-anticipated other income.

- **Demand kicking in:** 2Q revenue grew by 18/11% QoQ/YoY to INR 7bn, mainly due to a 22/10% QoQ/YoY growth in overall volumes. Demand has recovered well for both segments: Performance Surfactants (+15% YoY) and Speciality Care (+2% YoY).
- **Margins:** Gross margin jumped by 211/305bps QoQ/YoY to 36.3% on the back of improving share of specialties, new products mix and higher capacity utilisations. EBITDAM grew 201/334bps QoQ/YoY to 16.9% owing to lower opex as a result of curtailed travel, fair and exhibition expenses.
- **Highest volumes ever:** Total volumes grew by 22/10% QoQ/YoY to 63kT, owing to 13/15% QoQ/YoY growth in Performance Surfactants (66% of volume mix) volumes to 41kT and 39/2% QoQ/YoY growth in Speciality Care volumes to 22kT. Growth was driven by both the segments across geographies in 2Q. While India has made a strong comeback (+27% YoY volume growth), the momentum remains intact in AMET, which continues to grow ahead of the market (6% YoY). Rest of the World markets, too, are recovering sequentially.
- **Concall takeaways:** Capex of INR 1.5bn to be spent on two major projects: the multi-purpose plant at Tarapur and expansion of the speciality plant at Jhagadia. Both these projects would be commissioned by 1QFY22. Capex guidance for FY22 at INR 1.3-1.5bn.
- **Change in estimates:** We raise our FY21/22 EPS estimates by 8.7/3.7% to INR 78.0/93.7 to account better-than-anticipated performance in the quarter.
- **DCF-based valuation:** Price target of INR 2,265 is based on Sept-22E cash flows (WACC 10%, Terminal growth 3.0%). The stock is trading at 19.8x FY22E EPS.

Financial Summary (Consolidated)

INR mn	2Q FY21	1Q FY21	QoQ (%)	2Q FY20	YoY (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	7,187	6,072	18.4	6,488	10.8	27,630	25,964	27,357	34,414	38,195
EBITDA	1,215	905	34.3	880	38.0	3,534	3,689	4,208	4,925	5,636
APAT	817	565	44.7	610	33.9	1,910	2,244	2,766	3,320	3,861
AEPS (INR)	23.1	15.9	44.7	17.2	33.9	53.9	65.0	78.0	93.7	105.9
P/E (x)						34.4	28.5	23.8	19.8	17.5
EV/EBITDA(x)						17.8	17.0	15.2	13.0	11.6
RoE (%)						23.9	23.1	23.5	23.5	22.8

Source: Company, HSIE Research,

Change in estimates (Consolidated)

YE Mar	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR bn)	3.93	4.21	7.0	4.78	4.92	3.1	5.43	5.64	3.8
Adj. EPS (INR/sh)	71.8	78.0	8.7	90.3	93.7	3.7	101.4	105.9	4.4

Source: Company, HSIE Research

BUY

CMP (as on 12 Nov 2020)	INR 1,834
Target Price	INR 2,265
NIFTY	12,691

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,120	INR 2,265
EPS %	FY21E +8.7%	FY22E +3.7%

KEY STOCK DATA

Bloomberg code	GALSURF IN
No. of Shares (mn)	35
MCap (Rs bn) / (\$ mn)	65/871
6m avg traded value (Rs mn)	53
52 Week high / low	Rs 2,040/975

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.2	39.8	15.2
Relative (%)	(6.8)	1.6	7.7

SHAREHOLDING PATTERN (%)

	Jun-20	Sept-20
Promoters	70.93	70.93
FIs & Local MFs	13.60	13.42
FPIs	3.09	3.21
Public & Others	12.38	12.44
Pledged Shares	0.0	0.0

Source : BSE

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Disclosure:

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