

Galaxy Surfactants

Estimate changes

TP change

Rating change



Bloomberg	GALSURF IN
Equity Shares (m)	35
M.Cap.(INRb)/(USDb)	113.8 / 1.4
52-Week Range (INR)	3600 / 2561
1, 6, 12 Rel. Per (%)	3/9/-6
12M Avg Val (INR M)	103

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	36.9	37.9	38.2
EBITDA	4.0	5.1	4.9
PAT	2.6	3.3	3.2
EPS (INR)	74	92	89
EPS Gr. (%)	(13)	24	(3)
BV/Sh.(INR)	444	514	581
Ratios			
Net D:E	0.2	0.1	(0.0)
RoE (%)	18.3	19.2	16.2
RoCE (%)	15.5	16.8	15.2
Payout (%)	24.3	24.3	24.3

Valuations

P/E (x)	43.3	35.0	36.1
P/BV (x)	7.2	6.2	5.5
EV/EBITDA (x)	29.1	22.8	23.0
Div. Yield (%)	0.6	0.7	0.7
FCF Yield (%)	(1.3)	2.1	2.6

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	70.9	70.9	70.9
DII	13.6	13.8	13.0
FII	2.0	1.9	2.9
Others	13.4	13.4	13.1

FII Includes depository receipts

CMP: INR3,209
TP: INR4,000 (+25%)
Buy

Performance driven by a better product mix and new age products

- Against the guided EBITDA/kg of INR16-18, GALSURF reported an EBITDA/kg of INR26.8 (61% higher than our estimate, up 48% YoY). The current supply chain disruption has boosted demand, which is sold at a premium and aided the higher-than-usual margin in the past two quarters. Total volumes declined by 4% QoQ and 8% YoY to 55.3tmt (v/s 57.5tmt in 4QFY22).
- The management said global demand continues to witness a cut back, although demand from the Indian market remains stable (expected to gain momentum from 2QFY23 due to festive demand). Signs of a slowdown are also visible in Europe, which adversely affected volumes of Specialty Care Products. Supply-side constraints are improving and usher stability to earnings, with a sustainable EBITDA/kg of INR16-18.
- Its US performance has been robust over the past 18-24 months, with the introduction of new products in the Specialty Care Products segment. **Owing to the beat in our estimates, we raise our FY23 EBITDA/EPs estimate by 11%/13%, while also raising our EBITDA/kg margin to INR20 in FY23.**
- Fatty alcohol prices declined by 20% QoQ to USD2, 287/mt (up 11% YoY) in 1QFY23 and has stabilized at this level for now. The company's plant at Tarapur and Jhagadia, which manufacture mild surfactants and non-toxic preservatives, were fully operationalized in 1QFY23 and aided its performance.
- Continued focus on R&D (with an annual expenditure of INR400-500m) and increased wallet share from existing customers is likely to drive volume growth and expand EBITDA margin. Volume grew by ~6% CAGR over the last five years. We build a similar growth over FY22-24 as well. **We maintain our Buy rating with a TP of INR4,000, implying a potential upside of 25%.**

Lower than expected RM cost drives beat

- Revenue stood in line at INR11.6b, up 40% YoY and 10% QoQ.
- **EBITDA grew 36% YoY and 2% QoQ to INR1.5b (30% higher than our estimate).**
- Gross margin fell 220bp QoQ to 30.8%, with EBITDAM at 12.8% (est. 9.6%) in 1QFY23.
- PAT grew 31% YoY and 2% QoQ to INR1b.

Valuation and view – maintain our Buy rating

- Realization stood at INR210/kg in 1QFY23, with gross margin at INR64.6/kg (up 48% YoY) and EBITDA/kg at INR26.8 (up 48%). Total volume fell 8% YoY to 55.3tmt, with volumes for Performance Surfactants/Specialty Care Products at 35.4tmt/19.8tmt (down 9%/6%).
- Capex guidance stood at INR1.5b each for FY23/FY24, similar to that in FY22. Expansion of products is expected to be across the board, but the focus will mainly be on Specialty Care Products.
- The stock is currently trading at 36x FY24E EPS and 23x FY24E EV/EBITDA. We value the company at 45x FY24E EPS, or INR89, to arrive at our TP of INR4,000. We maintain our Buy rating, with a potential upside of 25%.

Consolidated - Quarterly Snapshot

(INR m)

Y/E March	FY22				FY23				FY22	FY23E	FY23E	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Gross Sales	8,264	8,773	9,291	10,529	11,589	9,012	8,537	8,806	36,857	37,943	11,857	-2%
YoY Change (%)	36.1	22.1	37.7	34.4	40.2	2.7	-8.1	-16.4	32.4	2.9	43.5	
Gross Margins (%)	31.7%	26.5%	27.4%	33.0%	30.8%	30.0%	29.2%	29.7%	29.8%	30.0%	25.8%	
EBITDA	1,085	709	764	1,450	1,480	1,221	1,123	1,235	4,007	5,059	1,139	30%
Margins (%)	13.1	8.1	8.2	13.8	12.8	13.5	13.2	14.0	10.9	13.3	9.6	
Depreciation	168	181	177	184	189	201	197	192	711	779	195	
Interest	29	37	28	34	44	32	29	18	129	124	31	
Other Income	45	50	18	12	-20	47	47	115	125	190	47	
PBT	933	541	576	1,244	1,227	1,035	945	1,140	3,293	4,346	961	28%
Tax	164	122	120	260	223	261	238	372	665	1,094	242	
Rate (%)	17.6	22.5	20.8	20.9	18.2	25.2	25.2	32.6	20.2	25.2	25.2	
Reported PAT	768	419	456	984	1,004	774	707	768	2,628	3,252	719	40%
YoY Change (%)	36.0	-48.7	-46.5	25.1	30.7	84.5	54.9	-21.9	-13.0	23.8	-6.4	
Margins (%)	9.3	4.8	4.9	9.3	8.7	8.6	8.3	8.7	7.1	8.6	6.1	
Segmental Volumes (tmt)	59.9	58.8	58.0	57.5	55.3	67.1	63.2	67.4	234	174	68	-19%
Performance Surfactants	38.8	38.0	37.0	35.4	35.4	43.9	40.3	41.5	120	117	40	-12%
Specialty Care Products	21.1	20.8	21.0	22.1	19.8	23.2	23.0	25.9	65	64	28	-29%
Operating Performance (INR/kg)												
Implied realization (INR/kg)	138.0	149.2	160.1	183.1	209.7	134.3	135.0	130.7	157.4	150.0	173.6	21%
Gross margin (INR/kg)	43.8	39.6	44.0	60.4	64.6	40.3	39.5	38.8	46.8	45.0	44.8	44%
EBITDA (INR/kg)	18.1	12.0	13.2	25.2	26.8	18.2	17.8	18.3	17.1	20.0	16.7	61%

1QFY23 - Quarter in charts

Exhibit 1: Volumes were down 4% QoQ, led by a dip in the Specialty care Products segment

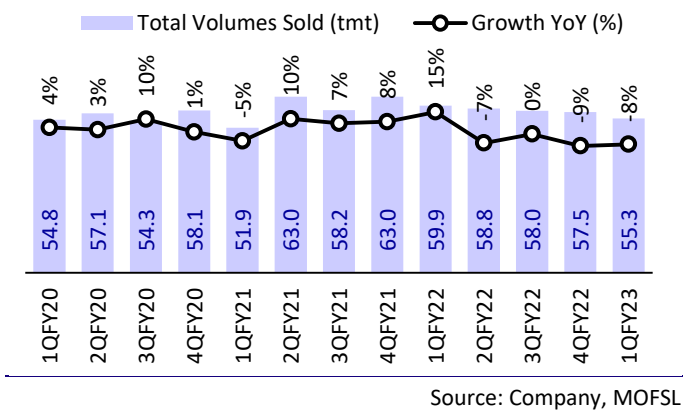


Exhibit 2: ...while Performance Surfactants volumes were flattish QoQ

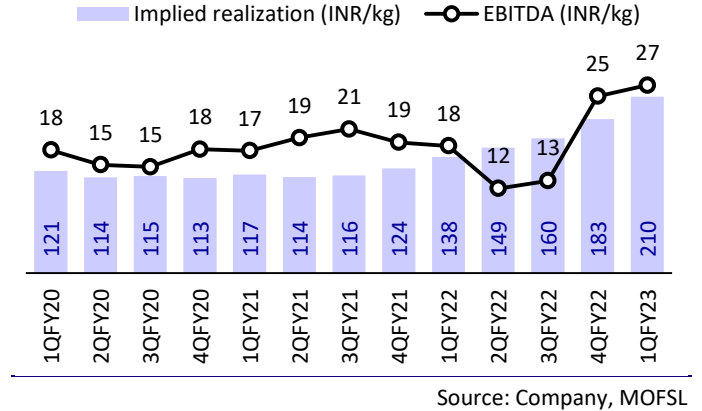


Exhibit 3: Gross sales were up 10% QoQ on the back of improvement in realization QoQ (to INR210/kg)...

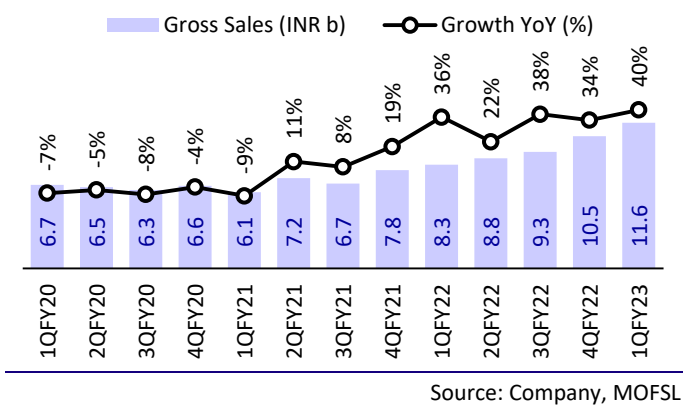


Exhibit 4: ...with margins declining QoQ

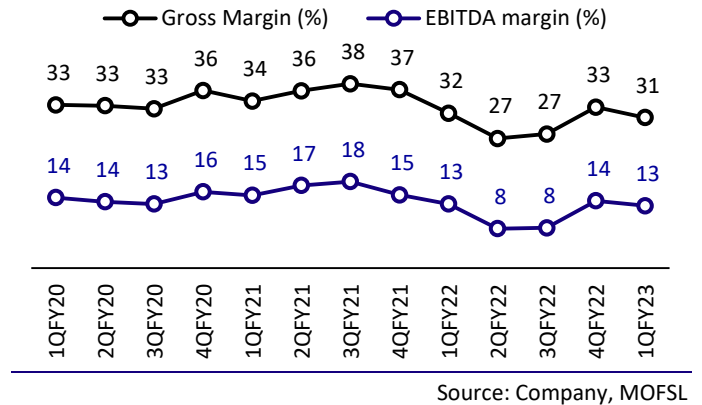


Exhibit 5: EBITDA growth was +2% QoQ

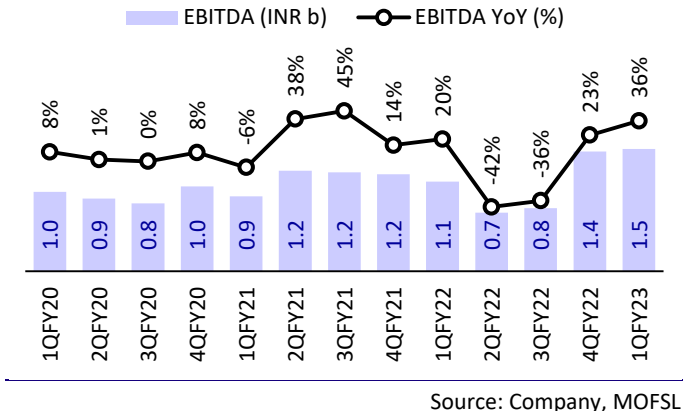


Exhibit 6: ...with PAT also up 2% QoQ

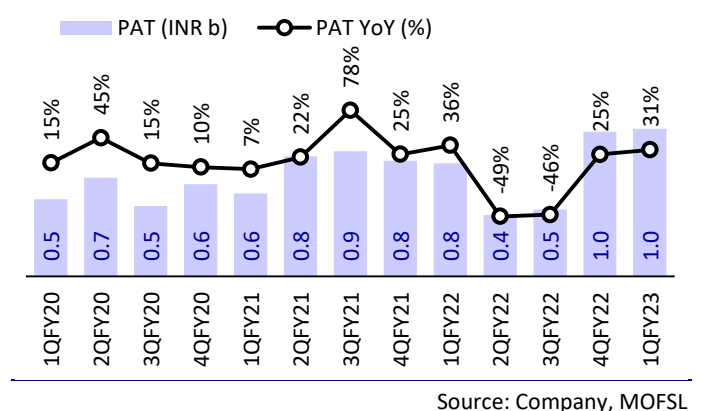
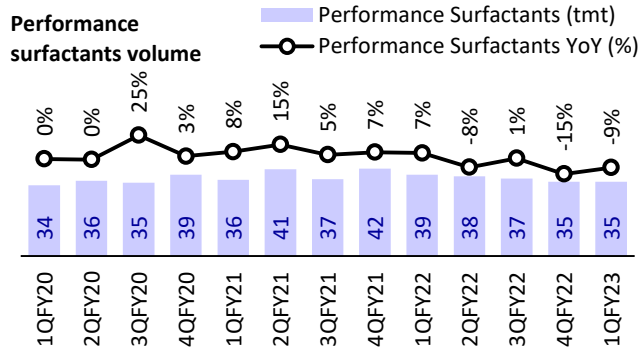
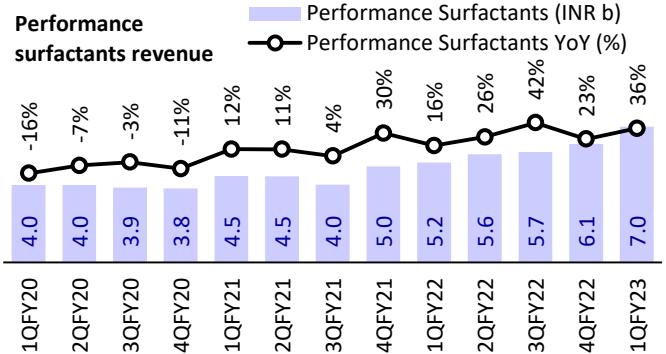
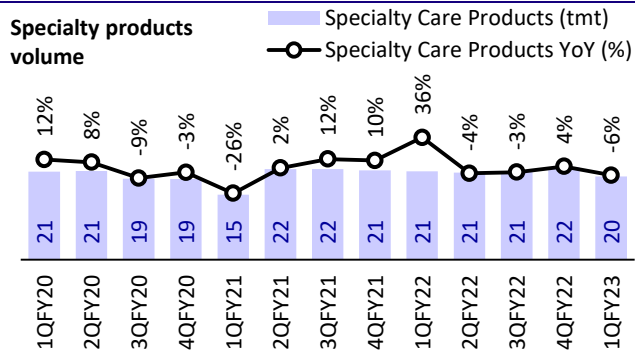


Exhibit 7: Performance surfactants volumes were flat QoQ...

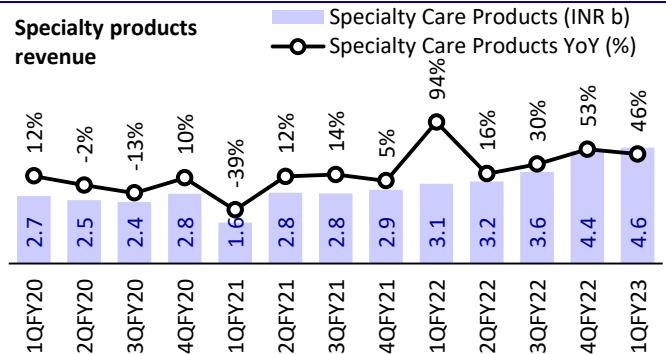
Source: Company, MOFSL

Exhibit 8: ...although segmental revenue up 15% QoQ

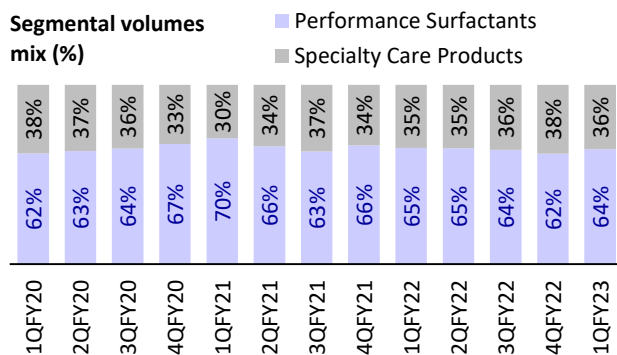
Source: Company, MOFSL

Exhibit 9: Specialty care products volume was -10% QoQ

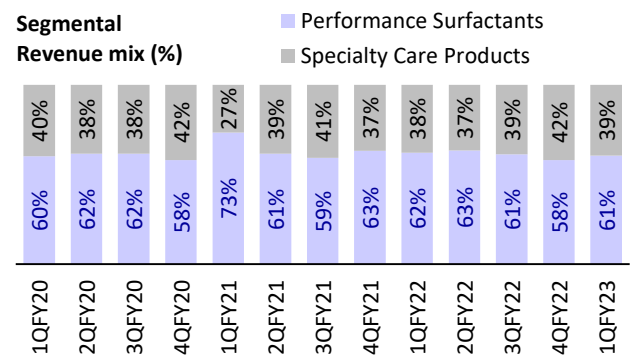
Source: Company, MOFSL

Exhibit 10: ...with segmental revenue up +3% QoQ

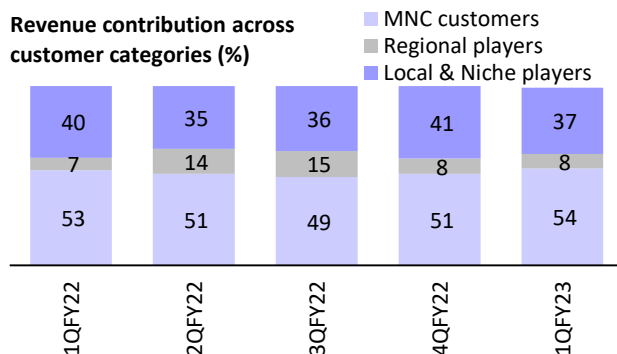
Source: Company, MOFSL

Exhibit 11: Performance Surfactants volume mix improved

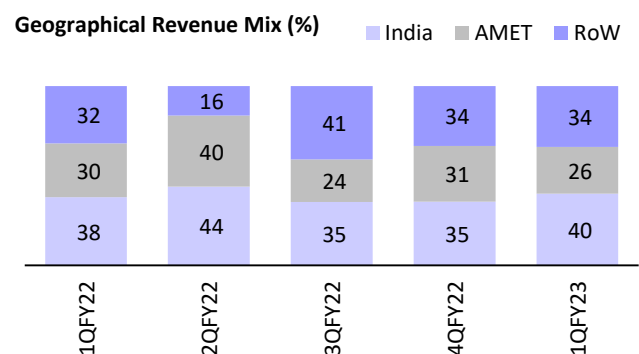
Source: Company, MOFSL

Exhibit 12: ...with revenue mix also improving for the Performance Surfactants segment

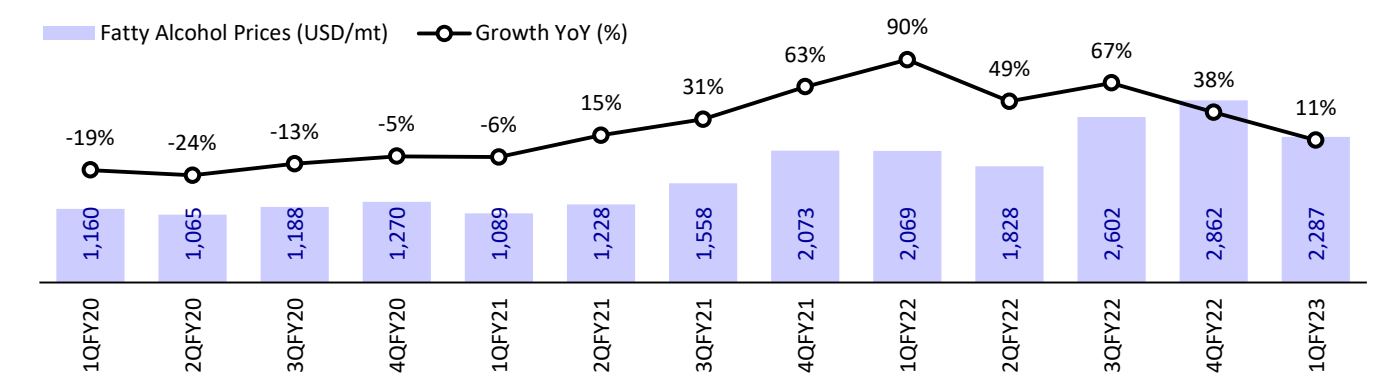
Source: Company, MOFSL

Exhibit 13: MNC customers' contribution to overall revenues improved during the quarter

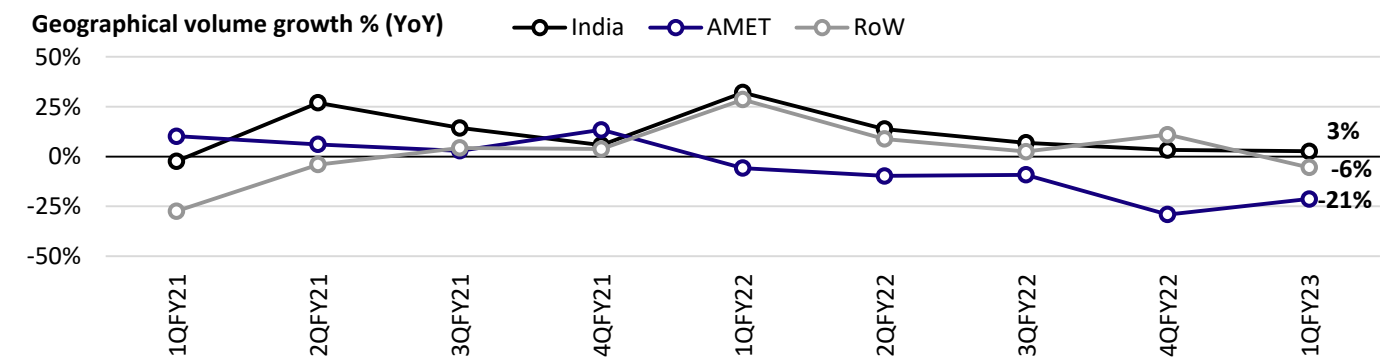
Source: Company, MOFSL

Exhibit 14: ...with India doing better than other regions amid AMET's mix declining

Source: Company, MOFSL

Exhibit 15: Fatty Alcohol prices were up 11% YoY (-20 QoQ)- prices still at elevated levels

Source: Company, MOFSL

Exhibit 16: India recorded volumes growth of 3% YoY, although AMET and RoW saw volumes de-growth of 21% and 6% YoY in 1QFY23- owing to continue demand cutbacks and signs of slowdown visible in Europe

Source: Company, MOFSL

Story in charts

Exhibit 17: Specialty products to have consistent share with...

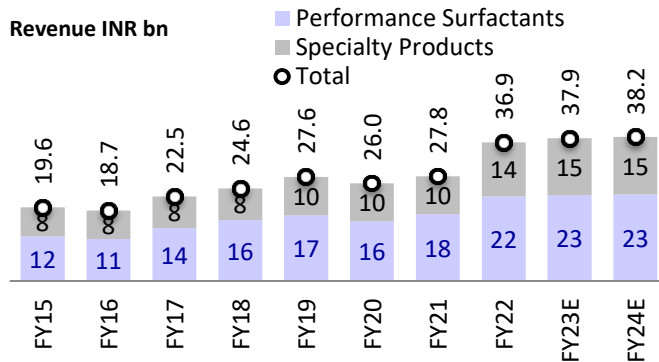


Exhibit 18: ...EBITDA/MT is set to increase to INR18-20

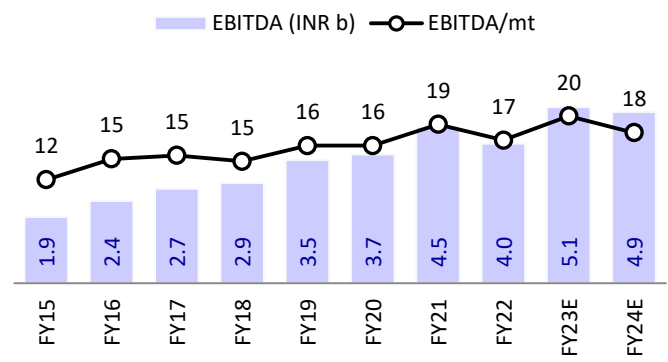


Exhibit 19: Expect capacity utilization to ramp up...

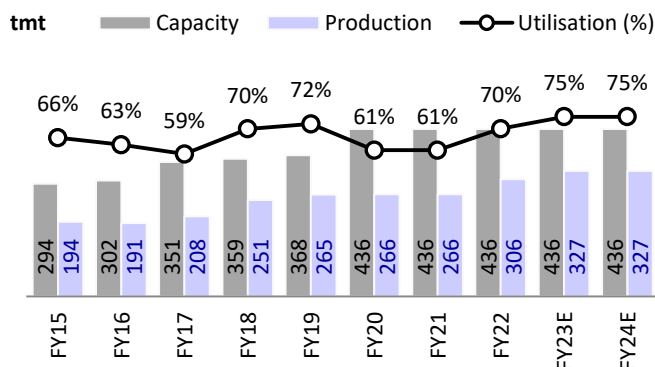


Exhibit 20: ...with higher volume growth in FY23-24E

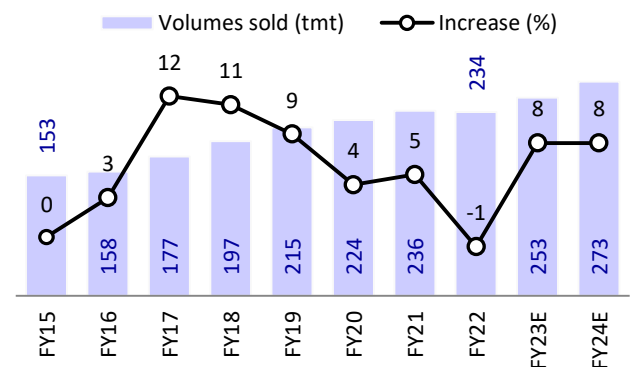


Exhibit 21: One-year forward P/E trades at 37.3x...

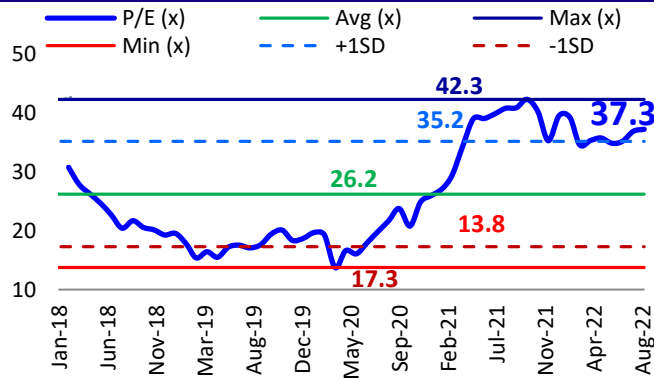


Exhibit 22: ...expect PAT margin to normalize

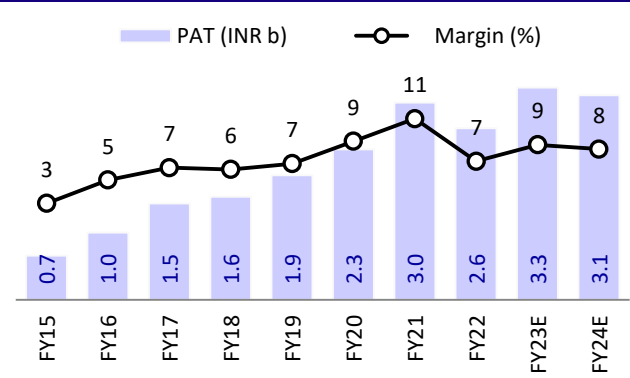


Exhibit 23: GALSURF is likely to generate an FCF of INR5.4b...

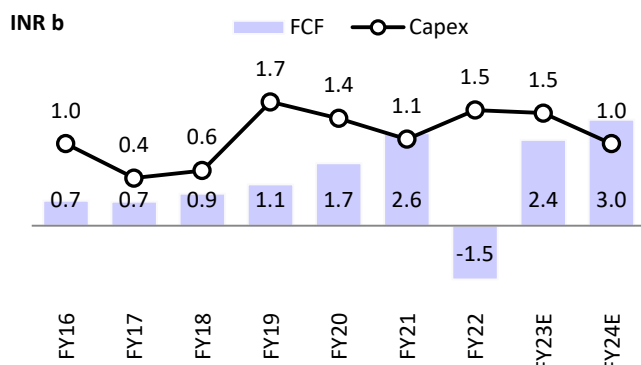
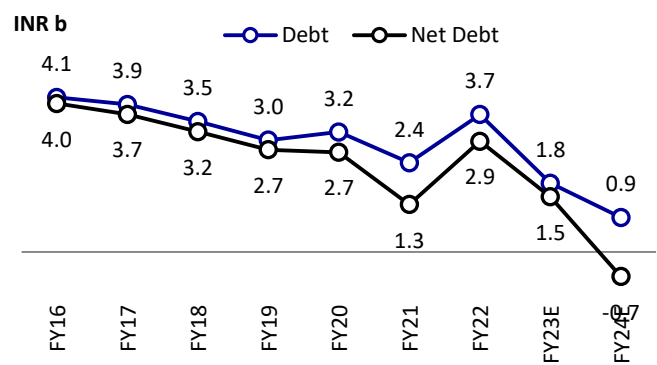


Exhibit 24: ...and become a net cash company by FY24E



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	37,943	38,247
Change (%)	20.1	9.5	12.2	-6.0	7.2	32.4	2.9	0.8
Gross Margins (%)	32.1	28.9	29.5	33.9	36.3	29.8	30.0	30.7
EBITDA	2,714	2,877	3,534	3,689	4,488	4,007	5,059	4,917
Margin (%)	12.1	11.7	12.8	14.2	16.1	10.9	13.3	12.9
Depreciation	472	485	512	622	740	711	779	851
EBIT	2,242	2,392	3,022	3,067	3,749	3,297	4,280	4,067
Int. and Finance Charges	272	306	300	238	134	129	124	70
Other Income	104	101	47	59	109	125	190	214
PBT bef. EO Exp.	2,074	2,188	2,769	2,888	3,723	3,293	4,346	4,211
PBT after EO Exp.	2,074	2,188	2,769	2,888	3,723	3,293	4,346	4,211
Total Tax	598	607	859	584	702	665	1,094	1,060
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	3,252	3,151
Adjusted PAT	1,476	1,580	1,910	2,304	3,021	2,628	3,252	3,151
Change (%)	43.6	7.1	20.9	20.6	31.1	-13.0	23.8	-3.1
Margin (%)	6.6	6.4	6.9	8.9	10.9	7.1	8.6	8.2

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	17,852	20,238
Net Worth	5,749	7,188	8,767	10,678	13,014	15,744	18,206	20,592
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	20,285	21,756
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&Adv.	8,273	9,881	9,717	11,081	12,821	17,773	17,724	19,126
Inventory	3,174	3,456	3,513	3,250	4,278	7,118	7,125	7,222
Account Receivables	3,472	4,182	4,268	4,394	4,689	6,380	6,568	6,621
Cash and Bank Balance	261	276	257	542	1,114	711	363	1,587
Cash	257	271	250	477	815	638	290	1,513
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	3,667	3,696
Curr. Liability & Prov.	2,942	3,610	3,615	4,005	4,874	6,353	6,393	6,473
Account Payables	2,523	3,278	3,059	2,731	3,770	5,189	5,194	5,264
Other Current Liabilities	309	230	416	1,098	918	1,012	1,041	1,050
Provisions	110	102	140	176	186	153	158	159
Net Current Assets	5,331	6,271	6,102	7,075	7,947	11,419	11,331	12,653
Appl. of Funds	9,931	10,944	12,065	14,115	15,621	19,652	20,285	21,756

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	91.7	88.9
EPS Growth (%)	43.6	7.1	20.9	20.6	31.1	-13.0	23.8	-3.1
Cash EPS	54.9	58.3	68.3	82.5	106.1	94.2	113.7	112.9
BV/Share	162.2	202.8	247.3	301.2	367.1	444.1	513.6	580.9
DPS	4.0	3.0	12.0	17.0	18.0	18.0	22.3	21.6
Payout (%)	11.6	8.1	26.9	31.5	21.1	24.3	24.3	24.3
Valuation (x)								
P/E	77.1	72.0	59.6	49.4	37.7	43.3	35.0	36.1
Cash P/E	58.4	55.1	47.0	38.9	30.2	34.1	28.2	28.4
P/BV	19.8	15.8	13.0	10.7	8.7	7.2	6.2	5.5
EV/Sales	5.2	4.7	4.2	4.5	4.1	3.2	3.0	3.0
EV/EBITDA	43.3	40.7	33.0	31.6	25.6	29.1	22.8	23.0
Dividend Yield (%)	0.1	0.1	0.4	0.5	0.6	0.6	0.7	0.7
FCF per share	18.9	25.1	32.4	49.2	72.7	-42.3	67.6	83.9
Return Ratios (%)								
RoE	28.9	24.4	23.9	23.7	25.5	18.3	19.2	16.2
RoCE	17.8	17.3	18.4	19.1	21.1	15.5	16.8	15.2
RoIC	18.0	17.3	19.5	20.5	23.7	17.7	18.4	16.9
Working Capital Ratios								
Fixed Asset Turnover (x)	5.2	5.6	5.8	4.6	4.5	6.1	5.8	5.5
Asset Turnover (x)	2.3	2.3	2.3	1.8	1.8	1.9	1.9	1.8
Inventory (Days)	52	51	46	46	56	70	69	69
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	2.8	3.0
Interest Cover Ratio	8.2	7.8	10.1	12.9	27.9	25.7	34.7	58.1
Net Debt/Equity	0.6	0.4	0.3	0.2	0.1	0.2	0.1	0.0

Consolidated - Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
(INR m)								
OP/(Loss) before Tax	2,074	2,188	2,769	2,888	3,723	3,293	4,346	4,211
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	-1,094	-1,060
(Inc)/Dec in WC	-1,135	-886	11	113	-186	-3,450	-260	-98
CF from Operations	1,111	1,454	2,830	3,157	3,651	49	3,895	3,974
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	2,395	2,974
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	-790	-765
CF from Fin. Activity	-570	-897	-1,192	-1,434	-1,650	592	-2,743	-1,750
Inc/Dec of Cash	115	11	-36	212	354	-201	-348	1,223
Opening Balance	147	257	271	250	477	815	637	289
Closing Balance	257	270	251	477	815	637	289	1,513

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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