

Galaxy Surfactants

BSE SENSEX

59,307

S&P CNX

17,576

CMP: INR2,853
TP: INR3,556 (+25%)
Buy

Stock Info

Bloomberg	GALSURF IN
Equity Shares (m)	35
M.Cap.(INRb)/(USDb)	101.1 / 1.2
52-Week Range (INR)	3445 / 2561
1, 6, 12 Rel. Per (%)	-9/-6/-13
12M Avg Val (INR M)	91
Free float (%)	29.1

Financials Snapshot (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

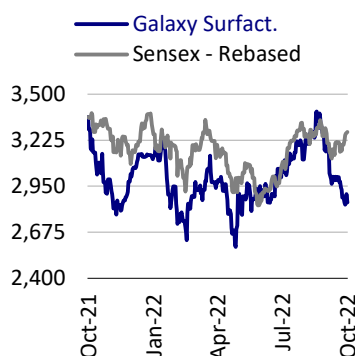
Valuations

P/E (x)	38.4	31.1	32.1
P/BV (x)	6.4	5.5	4.9
EV/EBITDA (x)	25.9	20.3	20.4
Div. Yield (%)	0.6	0.8	0.8
FCF Yield (%)	(1.5)	2.4	2.9

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	70.9	70.9	70.9
DII	12.7	13.6	13.3
FII	2.8	2.0	2.4
Others	13.5	13.4	13.4

FII Includes depository receipts

Stock Performance (1-year)

Demand cutback seen: deterrent to growth opportunities?

- Irrespective of volatility in raw material prices and stressed margins, demand from the end-user industries remained undeterred over the past year.
- However, today, we are noticing demand cutbacks in various regions the company operates in.
- Although prices of key raw materials—Fatty Alcohol and Ethylene Oxide—for the company have been on a decline, which comes as a boon for the company, the demand cut back that is being seen could pose a threat to growth opportunities in FY23 itself.
- The management has guided for an EBITDAM of INR16-18/kg with a bias on the higher side of the band. We forecast the margin to normalize over the next two quarters, although we expect it to be INR20/kg for FY23, owing to the outperformance in 1QFY23.
- Despite the above, we reiterate our Buy rating on the stock, given: a) robust volume growth trajectory, and b) its continued focus on expansion, especially in the specialty care products segment that should aid in margin expansion. We value the company at 40x FY24E EPS of INR89 to arrive at our TP of IN3, 556.

Key raw material prices on the wane...

- The key raw material for the company is Fatty Alcohol and Fatty Acids, which constitute 60-65% of the total raw materials that GALSURF uses. These are derived from Palm Kernel Oil and Coconut oil (which forms part of the Oleo chemical chain) and the company procures its RMs locally through Adani Wilmar and Godrej Industries.
- In 2QFY23, Fatty Alcohol prices have corrected 31% QoQ to USD1575/mt (USD2288/mt in 1QFY23) and 17% YoY (USD1895/mt in 2QFY22). The same is true for Ethylene Oxide, which is another key raw material for GALSURF. Over the same period, the prices have corrected 17% QoQ to USD6618/mt (from USD7946/mt in 1QFY23) and 12% YoY (USD7943/mt in 2QFY22).
- This bodes well for the company as this would help ease margin pressures that the company has been facing, owing to record raw material prices in the past one year. Freight rates have also cooled off from their highs. We expect the EBITDAM to be at INR20/kg for FY23, mainly driven by the outperformance in 1QFY23 and INR18/kg for FY24.

...although demand cutback could neutralize the positive effect

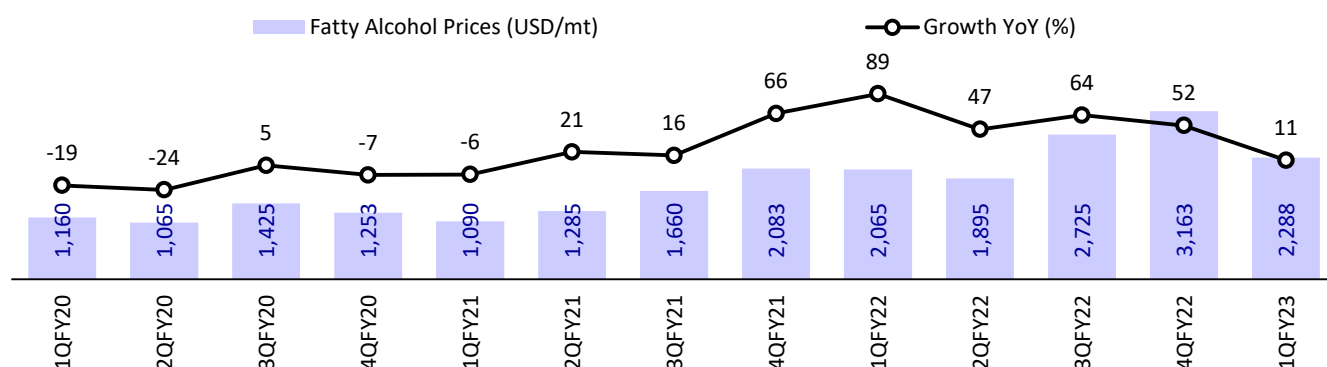
- Revenues from exports were 62% in FY22 with the company being a player in major markets such as USA, Europe, Egypt, and AMET. Revenue mix across India, AMET, and RoW stood at 38%/31%/31% in FY22, while the same was 40%/26%/34% in 1QFY23 for the company. Volumes have been on a declining trend in the AMET region over the past five quarters.

- Not only this, the volumes declined for the first time in seven quarters for the RoW market as well in 1QFY23 (by 6% YoY). Even though the Chinese competition is of miniscule importance to its operations, Europe contributes 10% to the overall revenues. Owing to inflation and the ongoing gas crisis, consumption, in general, has taken a hit in the continent, thereby, affecting the demand for the specialty products in the continent.
- Although the easing in the raw materials prices from record high comes as a blessing in disguise for GALSURF, the demand cut back would neutralize the positive effect and dent the ability of the company to grow its volumes as per its own guidance in FY23 itself.

Valuation and view – reiterate Buy

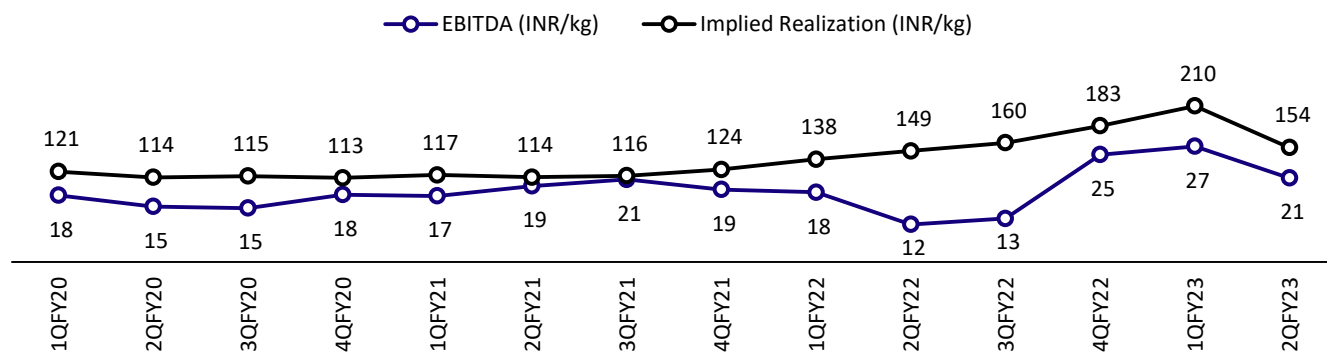
- The continued focus on R&D (with an annual expenditure of INR400- 500m) and increased wallet share from its existing customers is likely to drive volume growth and expand EBITDA margin. Although the company plans expansion of products across the board, its focus would be mainly on the specialty care products segment.
- The stock is trading at 32x FY24E EPS and 20x FY24E EV/EBITDA. We value the company at 40x FY24E EPS of INR89 to arrive at our TP of INR3, 556. We reiterate our Buy rating with a 25% potential upside.

Exhibit 1: Fatty Alcohol prices down 31% QoQ and down 17% YoY in 2QFY23

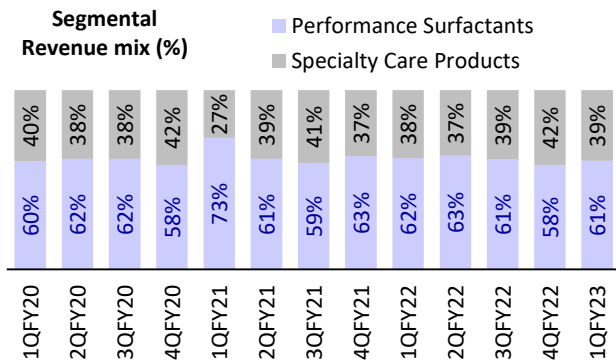


Sources: Company reports, Bloomberg, MOFSL

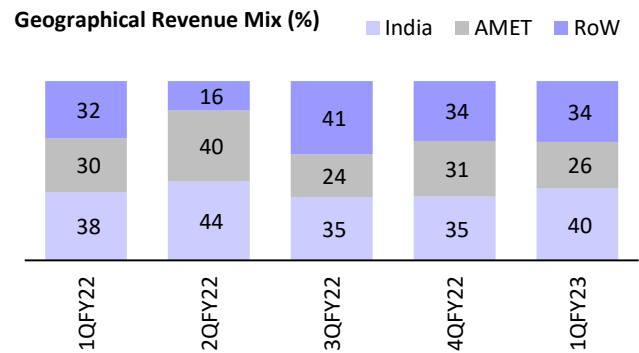
Exhibit 2: Expect both realization and EBITDA/kg to normalize in 2QFY23



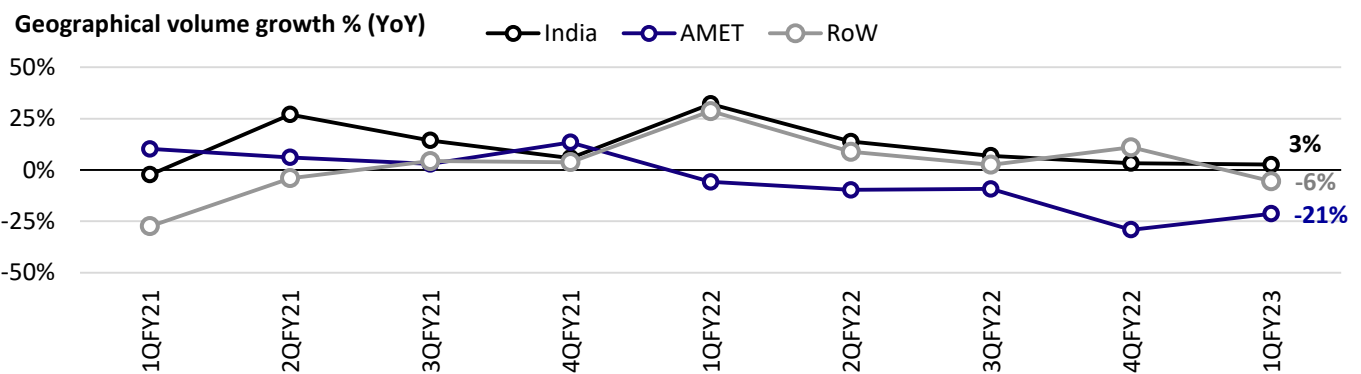
Sources: Company reports, MOFSL

Exhibit 3: 10% of the total revenue comes from Europe...

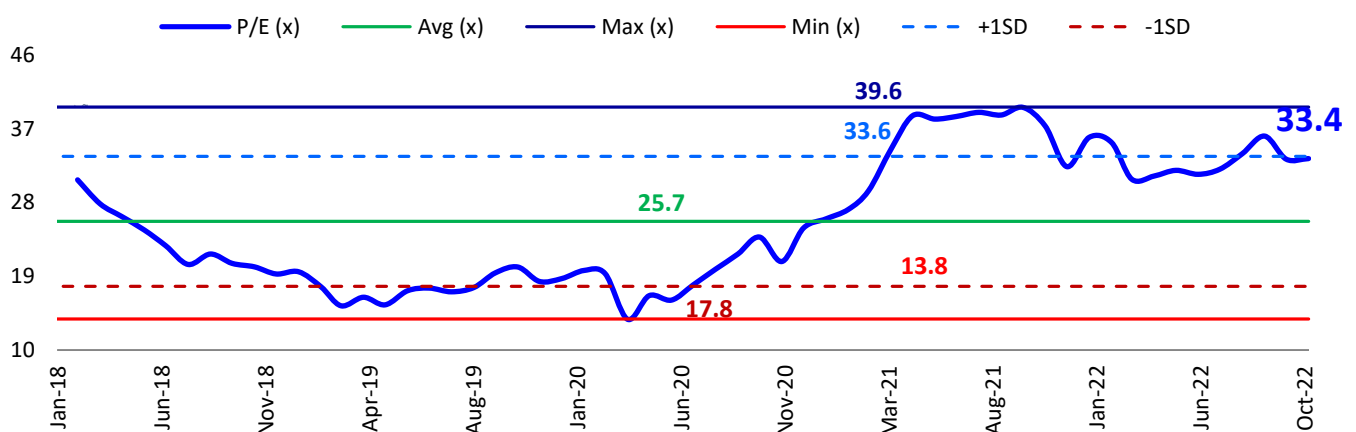
Sources: Company reports, MOFSL

Exhibit 4: ...with GALSURF supplying Specialty Products to the customers in the region

Sources: Company reports, MOFSL

Exhibit 5: AMET market has seen de-growth in five consecutive quarters now, with RoW declining for the first time in six quarters in 1QFY23

Sources: Company reports, MOFSL

Exhibit 6: On a one-year forward P/E, GALSURF trades at 33.4x, a 30% premium to its long-term average

Sources: Company reports, MOFSL

Story in charts

Exhibit 7: Expect ~11% revenue CAGR over FY21-24E...

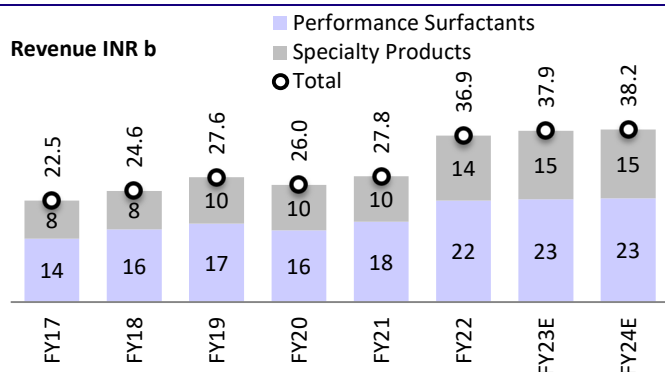


Exhibit 8: ...with specialty contribution improving in the mix

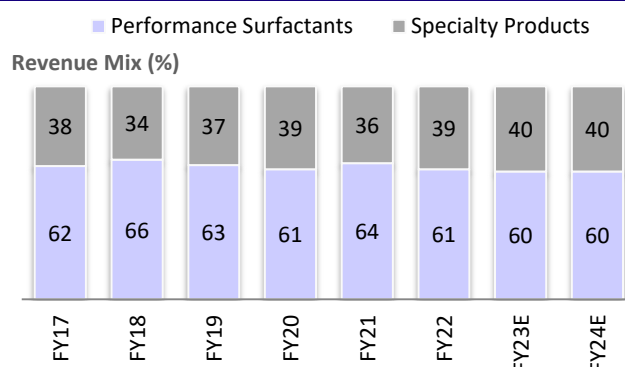


Exhibit 9: Expect capacity utilization to ramp up...

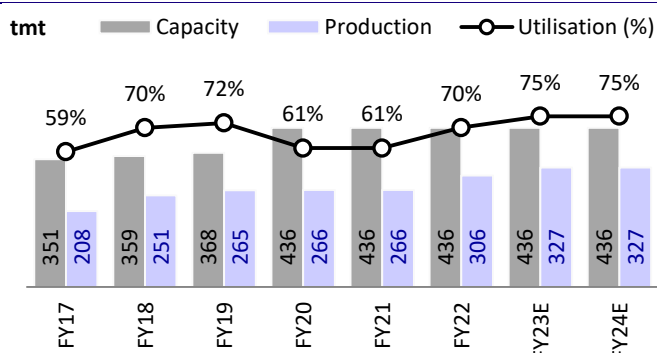


Exhibit 10: ...with higher volume growth in FY22-24E

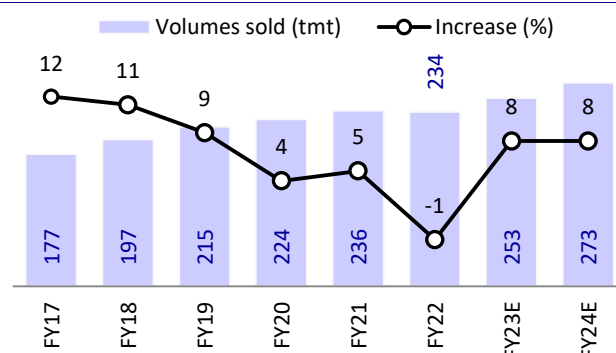


Exhibit 11: EBITDA/mt to be at INR16-18

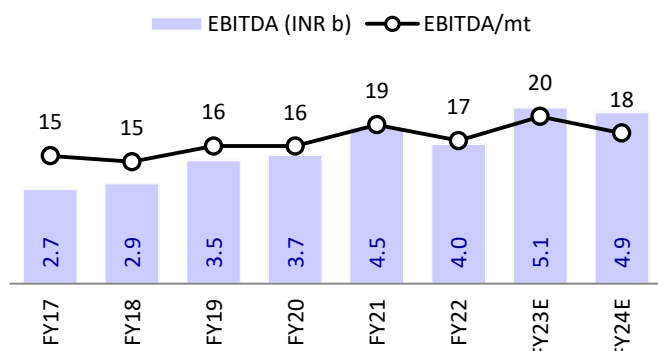


Exhibit 12: ...with PAT margin to remain stable

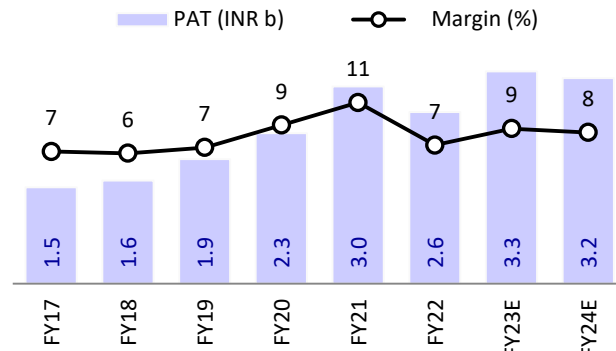


Exhibit 13: GALSURF is likely to generate FCF of INR5.4b...

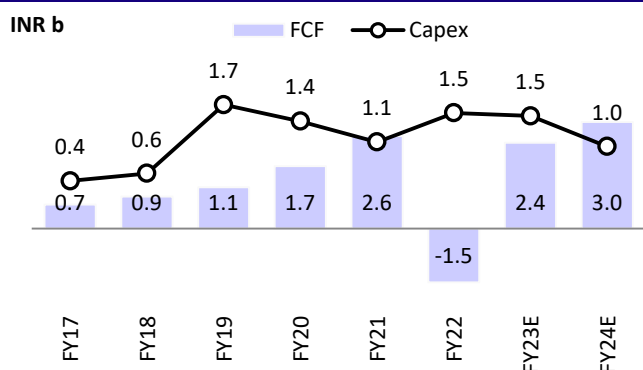
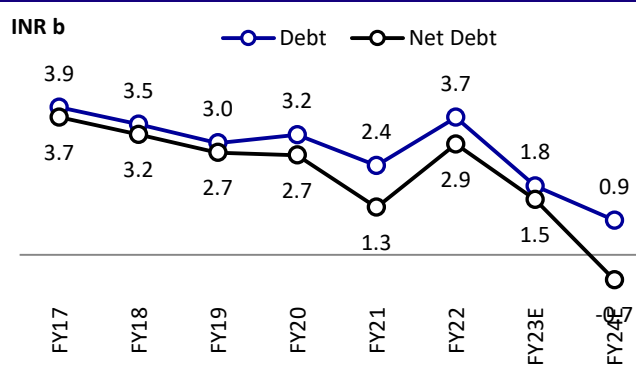


Exhibit 14: ...and become net cash company by FY24E



Sources: Company reports, MOFSL

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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	68.4	63.9	52.9	43.8	33.4	38.4	31.1	32.1
Cash P/E	51.9	48.9	41.7	34.5	26.9	30.3	25.1	25.2
P/BV	17.6	14.1	11.5	9.5	7.8	6.4	5.5	4.9
EV/Sales	4.7	4.2	3.8	4.0	3.7	2.8	2.7	2.6
EV/EBITDA	38.6	36.2	29.4	28.1	22.8	25.9	20.3	20.4
Dividend Yield (%)	0.1	0.1	0.4	0.6	0.6	0.6	0.8	0.8
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

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