

# Galaxy Surfactants

## Estimate changes



## TP change



## Rating change



Bloomberg	GALSURF IN
Equity Shares (m)	35
M.Cap.(INRb)/(USD\$b)	99.8 / 1.2
52-Week Range (INR)	3445 / 2561
1, 6, 12 Rel. Per (%)	-10/-10/-11
12M Avg Val (INR M)	90

## Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	36.9	47.7	47.2
EBITDA	4.0	5.2	4.7
PAT	2.6	3.4	3.0
EPS (INR)	74	95	85
EPS Gr. (%)	(13)	28	(10)
BV/Sh.(INR)	444	516	580

## Ratios

Net D:E	0.2	0.2	0.1
RoE (%)	18.3	19.7	15.5
RoCE (%)	15.5	16.5	13.6
Payout (%)	24.3	24.3	24.3

## Valuations

P/E (x)	38.0	29.8	33.3
P/BV (x)	6.3	5.5	4.9
EV/EBITDA (x)	25.7	19.8	21.6
Div. Yield (%)	0.6	0.8	0.7
FCF Yield (%)	(1.5)	0.1	2.6

## 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

**CMP: INR2,815**

**TP: INR3,390 (+20%)**

**Buy**

## EBITDA/kg guidance raised for FY23; demand scenario remains uncertain

- GALSURF reported an EBITDA/kg of INR22.2 (est. INR20.8, up 84% YoY). Supply chain disruptions have reduced, with a significant decline in freight rates and raw material prices. Total volumes were flat QoQ at 59.3tmt (v/s 55.3tmt in 1QFY23). The muted volumes were on account of inflationary pressures in the AMET region, while the slowdown in Europe impacted Specialty Care volumes in 2QFY23.
- The management said demand in India remains robust. GALSURF is close to surpassing domestic sales volumes of 100tmta. The structural uptick that was seen during the COVID-led lockdown period has sustained, with the company expecting to grow its domestic business further.
- A decline in volumes and a reversal in multiple supply-led factors has resulted in a higher EBITDA/kg in the past few quarters. In line with the same, **the management has raised its FY23 EBITDA guidance to INR21-22/kg from INR16-18/kg**. However, with volumes recovering from FY24, there will be a decline in per kg margin.
- Fatty alcohol prices declined by 35% QoQ and 18% YoY to USD1,490/mt in 2QFY23. Even though volumes remained muted in 1HFY23, realization stayed firm at INR209/kg (up 45% YoY). We expect this trend to continue in 2HFY23. Subsequently, we have raised our FY23/FY24 revenue estimate by 26%/24%.
- A 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 in a similar growth over FY22-24 as well. **We maintain our Buy rating with a TP of INR3,390.**

## EBITDA beat, margin declines sequentially

- Revenue grew 40% YoY and 6% QoQ to INR12.3b.
- **EBITDA grew 86% YoY, but fell 11% QoQ, to INR1.3b (est. INR1.2b).**
  - Gross margin fell 390bp QoQ to 26.9%, with EBITDAM down 210bp to 10.7% in 2QFY23.
- PAT grew 100% YoY, but fell 16% QoQ, to INR839m (est. INR774m)
- **In 1HFY23**, revenue/EBITDA/PAT grew 40%/56%/55% YoY to INR24b/INR2.8b/INR1.8b.
  - EBITDAM expanded to 11.7% v/s 10.5% in 1HFY22.

## Valuation and view

- The management's 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 GALSURF plans an across the board expansion in its products, its focus will mainly be on the Specialty Care Products segment.
- The stock is currently trading at 33x FY24E EPS and 22x FY24E EV/EBITDA. We value the stock at 40x FY24E EPS, or INR85, to arrive at our TP of INR3,390 (a potential upside of 20%). We maintain our Buy rating.

## Consolidated quarterly snapshot

(INR m)

Y/E March	FY22				FY23				FY22	FY23E	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE
<b>Gross Sales</b>	<b>8,264</b>	<b>8,773</b>	<b>9,291</b>	<b>10,529</b>	<b>11,589</b>	<b>12,316</b>	<b>10,738</b>	<b>13,083</b>	<b>36,857</b>	<b>47,726</b>	<b>9,012</b>
Change (YoY %)	36.1	22.1	37.7	34.4	40.2	40.4	15.6	24.2	32.4	29.5	2.7
<b>Gross Margin (%)</b>	<b>31.7%</b>	<b>26.5%</b>	<b>27.4%</b>	<b>33.0%</b>	<b>30.8%</b>	<b>26.9%</b>	<b>26.7%</b>	<b>25.8%</b>	<b>29.8%</b>	<b>27.5%</b>	<b>30.0%</b>
<b>EBITDA</b>	<b>1,085</b>	<b>709</b>	<b>764</b>	<b>1,450</b>	<b>1,480</b>	<b>1,317</b>	<b>1,165</b>	<b>1,287</b>	<b>4,007</b>	<b>5,250</b>	<b>1,221</b>
Margin (%)	13.1	8.1	8.2	13.8	12.8	10.7	10.9	9.8	10.9	11.0	13.5
Depreciation	168	181	177	184	189	205	193	177	711	765	201
Interest	29	37	28	34	44	56	39	24	129	163	32
Other Income	45	50	18	12	-20	11	40	131	125	162	47
<b>PBT</b>	<b>933</b>	<b>541</b>	<b>576</b>	<b>1,244</b>	<b>1,227</b>	<b>1,067</b>	<b>974</b>	<b>1,216</b>	<b>3,293</b>	<b>4,484</b>	<b>1,035</b>
Tax	164	122	120	260	223	228	247	431	665	1,129	261
Rate (%)	17.6	22.5	20.8	20.9	18.2	21.4	25.3	35.4	20.2	25.2	25.2
<b>Reported PAT</b>	<b>768</b>	<b>419</b>	<b>456</b>	<b>984</b>	<b>1,004</b>	<b>839</b>	<b>727</b>	<b>786</b>	<b>2,628</b>	<b>3,355</b>	<b>774</b>
Change (YoY %)	36.0	-48.7	-46.5	25.1	30.7	100.0	59.5	-20.2	-13.0	27.7	84.5
Margin (%)	9.3	4.8	4.9	9.3	8.7	6.8	6.8	6.0	7.1	7.0	8.6
<b>Segmental Volumes (tmt)</b>	<b>59.9</b>	<b>58.8</b>	<b>58.0</b>	<b>57.5</b>	<b>55.3</b>	<b>59.3</b>	<b>55.4</b>	<b>68.7</b>	<b>234</b>	<b>174</b>	<b>59</b>
Performance Surfactants	38.8	38.0	37.0	35.4	35.4	38.9	38.4	40.8	120	117	40
Specialty Care Products	21.1	20.8	21.0	22.1	19.8	20.4	17.0	27.9	65	64	18
<b>Operating Performance (INR/kg)</b>											
Implied realization (INR/kg)	138.0	149.2	160.1	183.1	209.7	207.8	193.8	190.5	157.4	200.0	153.7
Gross margin (INR/kg)	43.8	39.6	44.0	60.4	64.6	55.9	51.7	49.1	46.8	55.0	46.1
EBITDA (INR/kg)	18.1	12.0	13.2	25.2	26.8	22.2	21.0	18.7	17.1	22.0	20.8



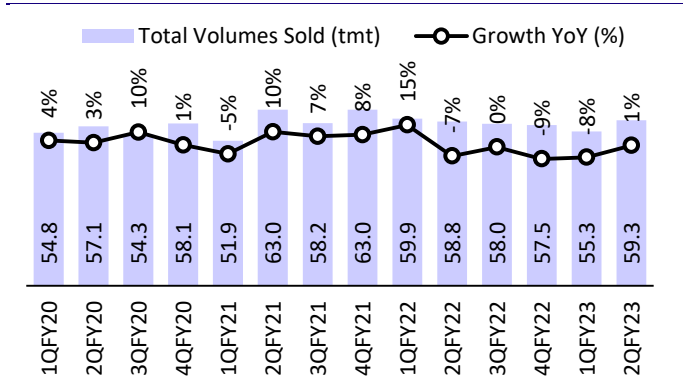
## Highlights from the management commentary

- Fatty alcohol prices and freight rates have corrected by over 50% in 2QFY23.
- A contraction in demand was seen and judicious pricing calls were taken by the management.
- India remains a bright spot for the company.
  - GALSURF is close to surpassing its domestic sales volumes of 100ktpa.
  - A structural uptick, seen during the COVID-led lockdown period, has sustained. With input costs falling, the management expects to build on the same further from here on.
- Currency depreciation, down trading, and a cut back in demand affected AMET volumes.
  - In the last eight months, the EGP has depreciated 35% against the USD.
  - A repeat of its FY19 performance may be seen in FY23. Egypt can take three-to-four quarters to recover from this downturn in volumes.
  - The long-term structural growth story in Egypt remains intact.
- The RoW has been a mixed bag for the company.
  - Mild surfactants, preservatives, and other Specialty Care Products are being supplied to Europe and other regions.
  - Multiple headwinds have impacted volumes in FY23 and in the past two years. Its long-term structural growth guidance remains intact.
- The decline in volumes and a reversal of multiple supply-led factors have led to a higher EBITDA/kg in the past few quarters
  - The management has revised its FY23 volume growth guidance to 2-3% from 6-8%.
  - **Its EBITDA/kg guidance for FY23 has been revised upwards to INR21-22 from INR16-18.**
- The management's focus is on volumes. GALSURF is growing ahead of the market in all product categories.
  - EBITDA/kg is a derivative of volumes and is not the primary focus of the management.
- Sentiment in the US is not as negative as it is in Europe, although customers have conveyed to GALSURF that there is some cutback in consumption.

- Some projects are getting delayed, but the company is ready with its expanded capacities to cater to the incremental demand that will arise once the sentiment turns positive.
- GALSURF was in the pre-capitalization stage in FY22. As its plants are now up and running, employee costs are higher.
- Variable pay, which was frozen in FY22, has been restored from FY23.
- Contracts are signed for a quarterly duration. The management anticipates no change in the terms of the contracts in FY23.

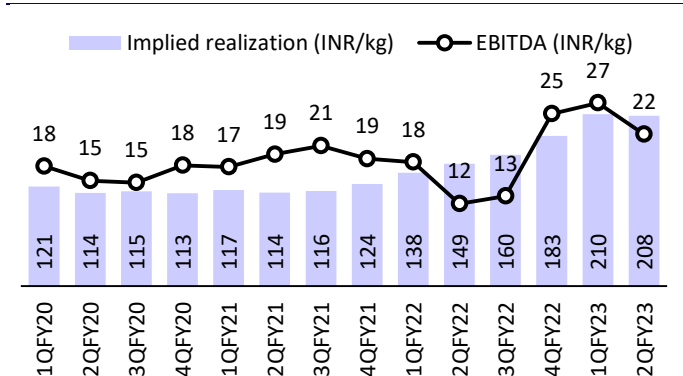
## 2QFY23 in charts

**Exhibit 1: Volumes rose 7% QoQ, led by growth in Performance Surfactants in 2QFY23**



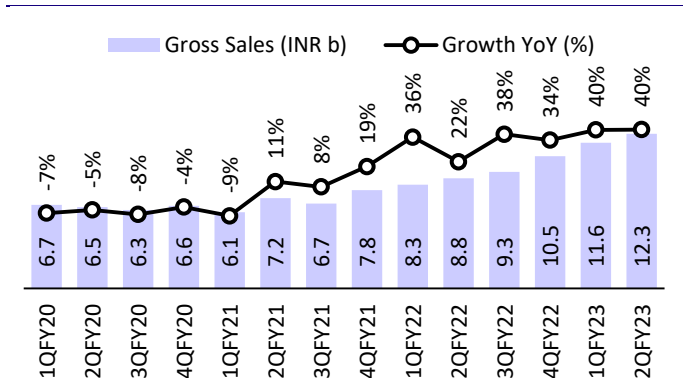
Source: Company, MOFSL

**Exhibit 2: The Specialty Care Products segment suffers due to the global slowdown in 2QFY23**



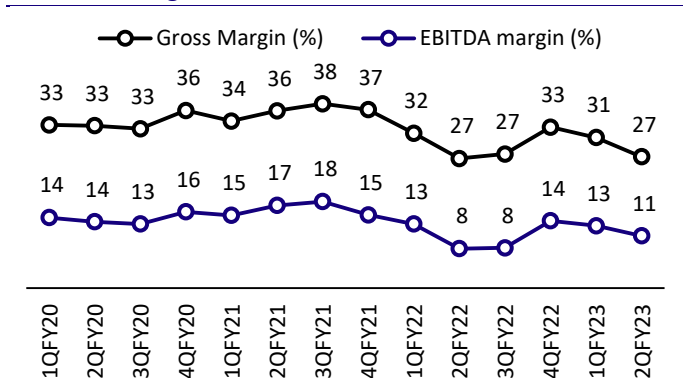
Source: Company, MOFSL

**Exhibit 3: Gross sales rose 6% QoQ, even as realizations remain flat QoQ in 2QFY23**



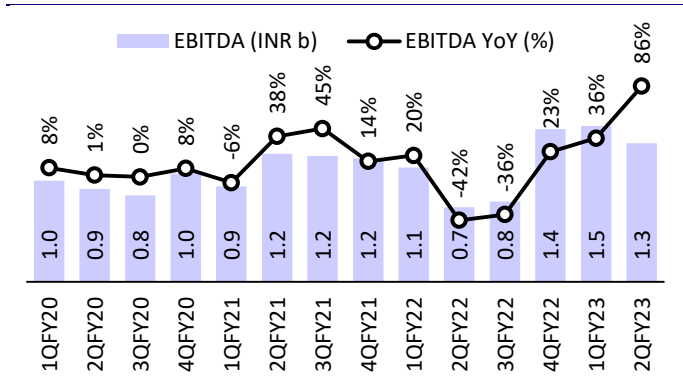
Source: Company, MOFSL

**Exhibit 4: Margin declines QoQ in 2QFY23**



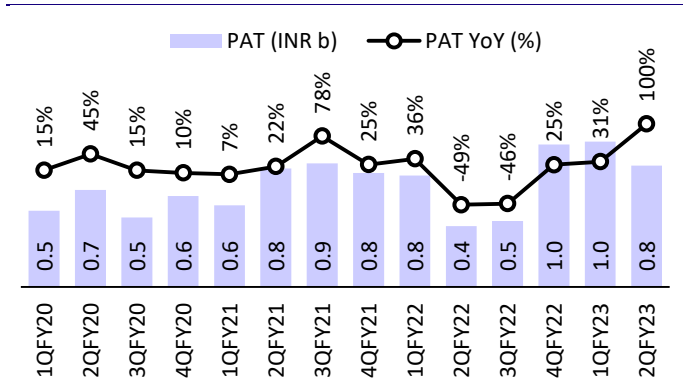
Source: Company, MOFSL

**Exhibit 5: EBITDA fell 11% QoQ, but grew 86% YoY in 2QFY23**



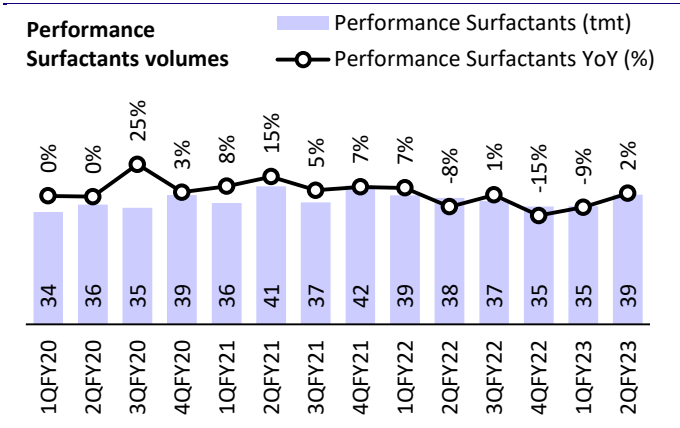
Source: Company, MOFSL

**Exhibit 6: PAT fell 16% QoQ, but grew 100% YoY, in 2QFY23**



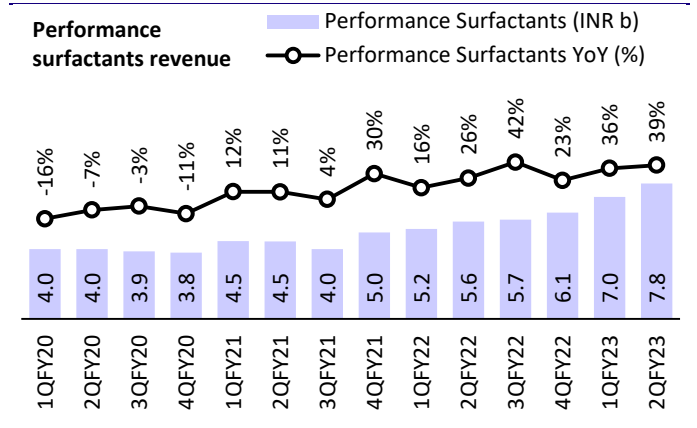
Source: Company, MOFSL

**Exhibit 7: Performance Surfactants volumes grew QoQ in 2QFY23**



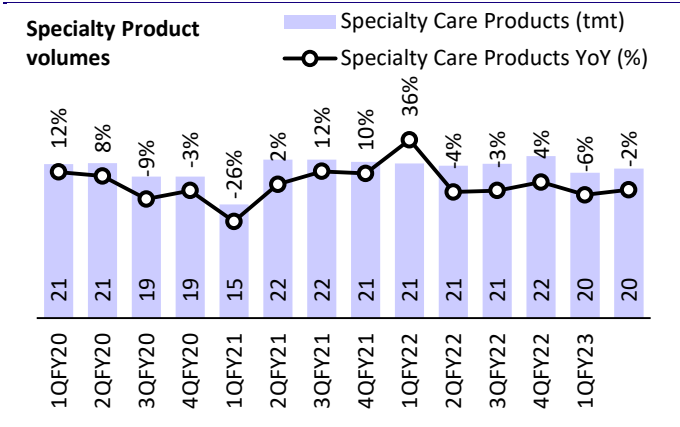
Source: Company, MOFSL

**Exhibit 8: Segmental revenue from Performance Surfactants grew 11% QoQ in 2QFY23**



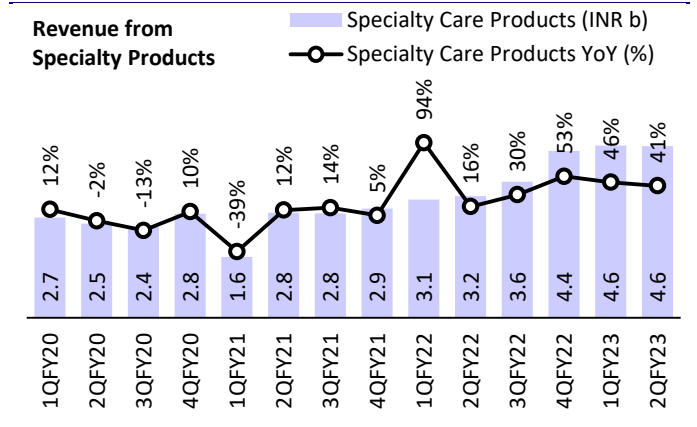
Source: Company, MOFSL

**Exhibit 9: Volume from Specialty Care Products grew 3% QoQ in 2QFY23...**



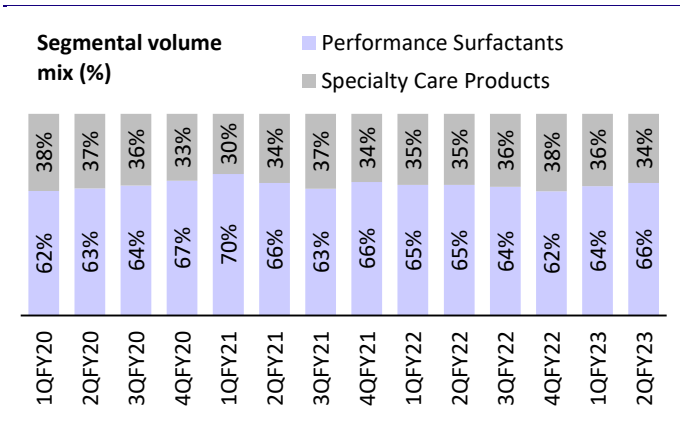
Source: Company, MOFSL

**Exhibit 10: ...with segmental revenue flat QoQ**



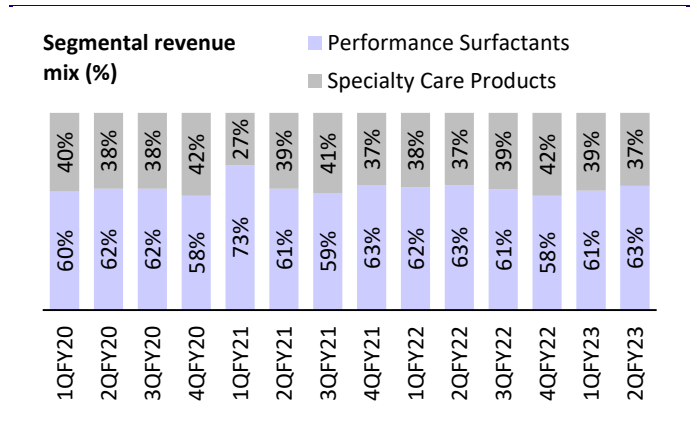
Source: Company, MOFSL

**Exhibit 11: Volume mix in Performance Surfactants improves...**



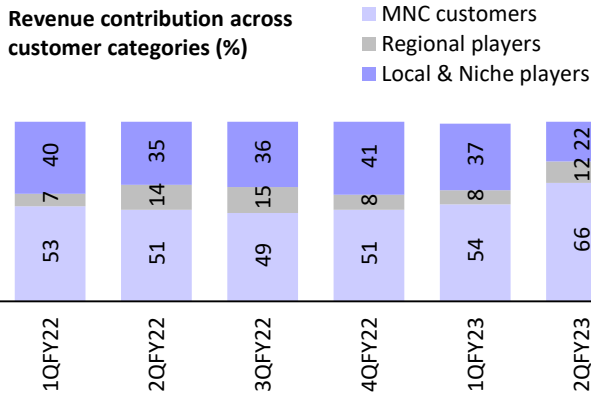
Source: Company, MOFSL

**Exhibit 12: ...with an improvement in the revenue mix**



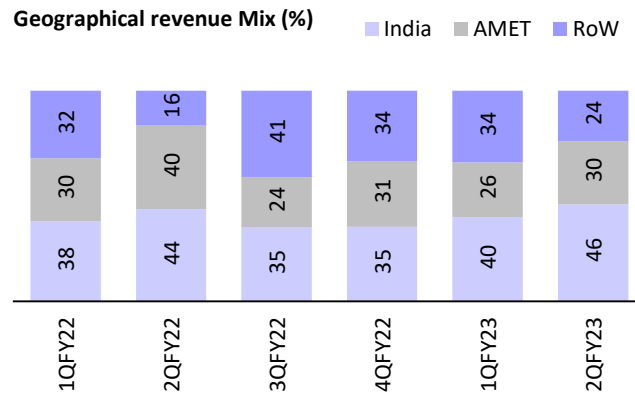
Source: Company, MOFSL

**Exhibit 13: Contribution of MNC customers to overall revenue improves in 2QFY23...**



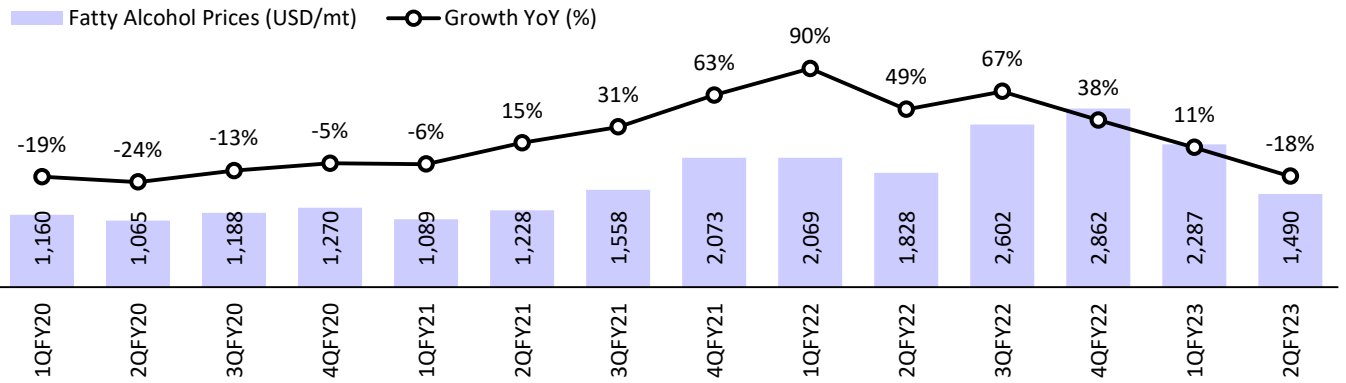
Source: Company, MOFSL

**Exhibit 14: ...with India doing better than other regions amid a decline in RoW mix**



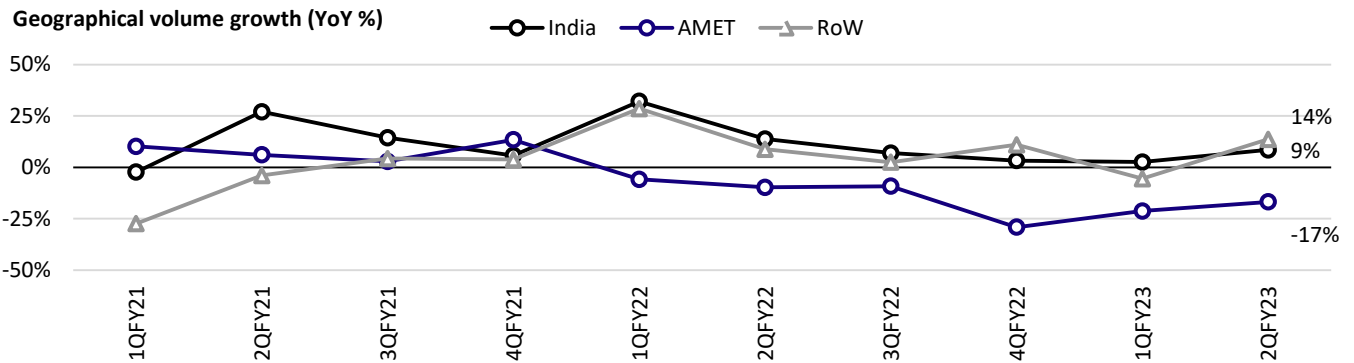
Source: Company, MOFSL

**Exhibit 15: Fatty Alcohol prices fell 18% YoY and 35% QoQ in 2QFY23**



Source: Company, MOFSL

**Exhibit 16: India records a volume growth of 9% YoY. AMET declines by 17%, while RoW grew 14% YoY**



Source: Company, MOFSL

Story in charts

Exhibit 17: Specialty products to have a consistent share

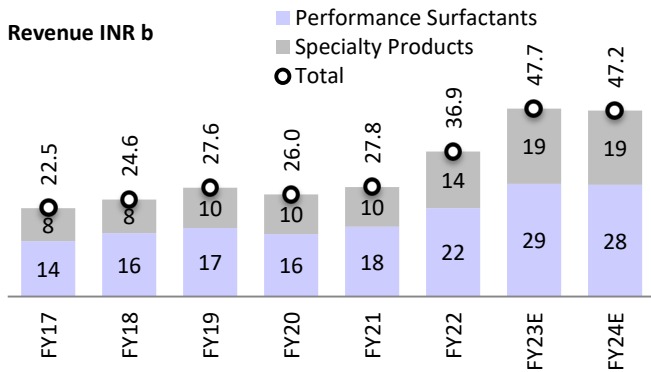


Exhibit 18: EBITDA/mt is set to rise to INR21-22 in FY23E

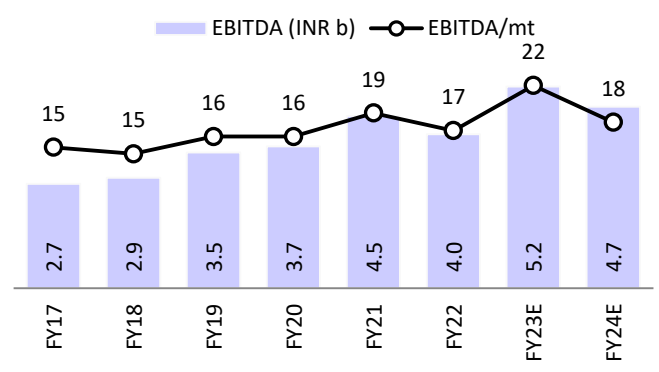


Exhibit 19: Expect capacity utilization to ramp up...

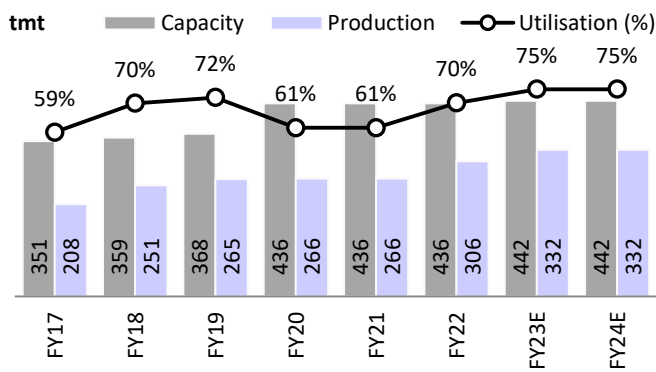


Exhibit 20: ...with higher volume growth in FY24

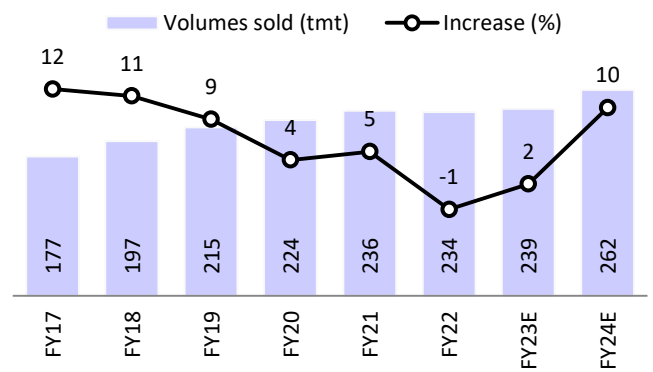


Exhibit 21: One-year forward P/E ratio trades at 31.8x

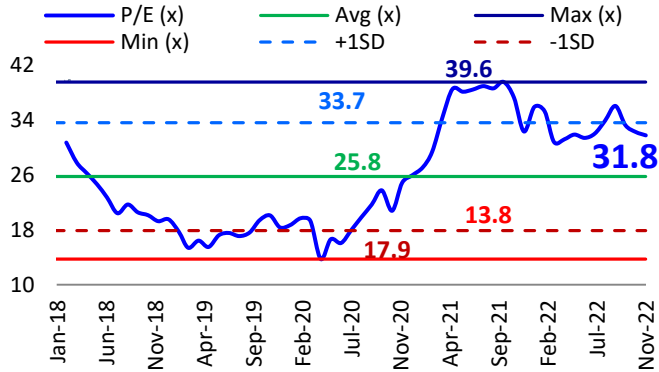


Exhibit 22: Expect PAT margin to normalize

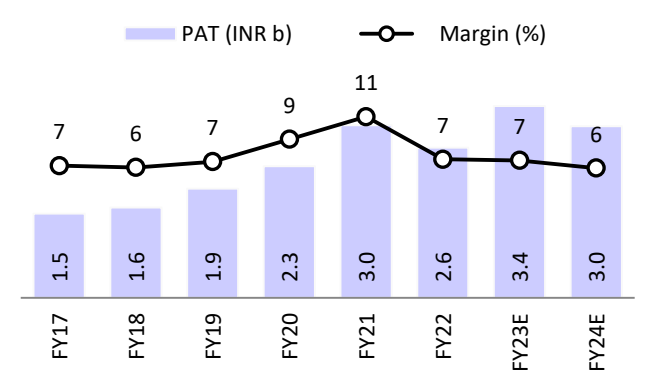


Exhibit 23: GALSURF is likely to generate an FCF of INR5.4b...

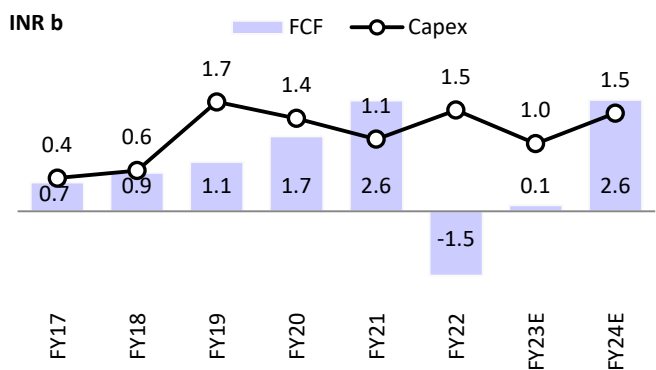
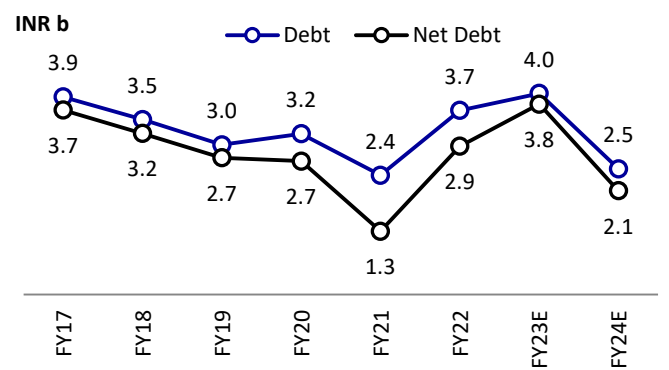


Exhibit 24: ...and become a net cash company by FY24E



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
<b>Total Income from Operations</b>	<b>22,480</b>	<b>24,625</b>	<b>27,630</b>	<b>25,964</b>	<b>27,841</b>	<b>36,857</b>	<b>47,726</b>	<b>47,249</b>
Change (%)	20.1	9.5	12.2	-6.0	7.2	32.4	29.5	-1.0
Gross Margin (%)	32.1	28.9	29.5	33.9	36.3	29.8	27.5	25.0
<b>EBITDA</b>	<b>2,714</b>	<b>2,877</b>	<b>3,534</b>	<b>3,689</b>	<b>4,488</b>	<b>4,007</b>	<b>5,250</b>	<b>4,725</b>
Margin (%)	12.1	11.7	12.8	14.2	16.1	10.9	11.0	10.0
Depreciation	472	485	512	622	740	711	765	836
<b>EBIT</b>	<b>2,242</b>	<b>2,392</b>	<b>3,022</b>	<b>3,067</b>	<b>3,749</b>	<b>3,297</b>	<b>4,485</b>	<b>3,889</b>
Int. and Finance Charges	272	306	300	238	134	129	163	138
Other Income	104	101	47	59	109	125	162	265
<b>PBT bef. EO Exp.</b>	<b>2,074</b>	<b>2,188</b>	<b>2,769</b>	<b>2,888</b>	<b>3,723</b>	<b>3,293</b>	<b>4,484</b>	<b>4,015</b>
<b>PBT after EO Exp.</b>	<b>2,074</b>	<b>2,188</b>	<b>2,769</b>	<b>2,888</b>	<b>3,723</b>	<b>3,293</b>	<b>4,484</b>	<b>4,015</b>
Total Tax	598	607	859	584	702	665	1,129	1,011
Tax Rate (%)	28.8	27.8	31.0	20.2	18.8	20.2	25.2	25.2
<b>Reported PAT</b>	<b>1,476</b>	<b>1,580</b>	<b>1,910</b>	<b>2,304</b>	<b>3,021</b>	<b>2,628</b>	<b>3,355</b>	<b>3,004</b>
<b>Adjusted PAT</b>	<b>1,476</b>	<b>1,580</b>	<b>1,910</b>	<b>2,304</b>	<b>3,021</b>	<b>2,628</b>	<b>3,355</b>	<b>3,004</b>
Change (%)	43.6	7.1	20.9	20.6	31.1	-13.0	27.7	-10.5
Margin (%)	6.6	6.4	6.9	8.9	10.9	7.1	7.0	6.4

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	17,930	20,204
<b>Net Worth</b>	<b>5,749</b>	<b>7,188</b>	<b>8,767</b>	<b>10,678</b>	<b>13,014</b>	<b>15,744</b>	<b>18,284</b>	<b>20,559</b>
Total Loans	3,929	3,480	2,978	3,196	2,374	3,660	4,000	2,500
Deferred Tax Liabilities	253	277	320	241	233	249	249	249
<b>Capital Employed</b>	<b>9,930</b>	<b>10,944</b>	<b>12,065</b>	<b>14,115</b>	<b>15,621</b>	<b>19,652</b>	<b>22,533</b>	<b>23,308</b>
Gross Block	8,183	8,548	9,722	11,525	11,945	12,828	13,828	15,328
Less: Accum. Deprn.	3,711	4,148	4,609	5,231	5,971	6,681	7,446	8,282
<b>Net Fixed Assets</b>	<b>4,472</b>	<b>4,399</b>	<b>5,112</b>	<b>6,294</b>	<b>5,974</b>	<b>6,146</b>	<b>6,382</b>	<b>7,045</b>
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
<b>Total Investments</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>58</b>	<b>435</b>	<b>5</b>	<b>5</b>	<b>5</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>8,273</b>	<b>9,881</b>	<b>9,717</b>	<b>11,081</b>	<b>12,821</b>	<b>17,773</b>	<b>22,282</b>	<b>22,385</b>
Inventory	3,174	3,456	3,513	3,250	4,278	7,118	9,204	9,214
Account Receivables	3,472	4,182	4,268	4,394	4,689	6,380	8,262	8,179
Cash and Bank Balance	261	276	257	542	1,114	711	214	435
Cash	257	271	250	477	815	638	140	362
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	4,603	4,557
<b>Curr. Liability and Prov.</b>	<b>2,942</b>	<b>3,610</b>	<b>3,615</b>	<b>4,005</b>	<b>4,874</b>	<b>6,353</b>	<b>8,217</b>	<b>8,210</b>
Account Payables	2,523	3,278	3,059	2,731	3,770	5,189	6,709	6,717
Other Current Liabilities	309	230	416	1,098	918	1,012	1,310	1,297
Provisions	110	102	140	176	186	153	198	196
<b>Net Current Assets</b>	<b>5,331</b>	<b>6,271</b>	<b>6,102</b>	<b>7,075</b>	<b>7,947</b>	<b>11,419</b>	<b>14,065</b>	<b>14,176</b>
<b>Appl. of Funds</b>	<b>9,931</b>	<b>10,944</b>	<b>12,065</b>	<b>14,115</b>	<b>15,621</b>	<b>19,652</b>	<b>22,533</b>	<b>23,308</b>



## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Basic (INR)</b>								
EPS	41.6	44.6	53.9	65.0	85.2	74.1	94.7	84.7
EPS Growth (%)	43.6	7.1	20.9	20.6	31.1	-13.0	27.7	-10.5
Cash EPS	54.9	58.3	68.3	82.5	106.1	94.2	116.2	108.3
BV/Share	162.2	202.8	247.3	301.2	367.1	444.1	515.8	579.9
DPS	4.0	3.0	12.0	17.0	18.0	18.0	23.0	20.6
Payout (%)	11.6	8.1	26.9	31.5	21.1	24.3	24.3	24.3
<b>Valuation (x)</b>								
P/E ratio	67.7	63.3	52.3	43.4	33.1	38.0	29.8	33.3
Cash P/E ratio	51.3	48.4	41.3	34.2	26.6	29.9	24.3	26.0
P/BV ratio	17.4	13.9	11.4	9.4	7.7	6.3	5.5	4.9
EV/Sales ratio	4.6	4.2	3.7	4.0	3.6	2.8	2.2	2.2
EV/EBITDA ratio	38.2	35.9	29.1	27.8	22.6	25.7	19.8	21.6
Dividend Yield (%)	0.1	0.1	0.4	0.6	0.6	0.6	0.8	0.7
FCF per share	18.9	25.1	32.4	49.2	72.7	-42.3	4.0	73.0
<b>Return Ratios (%)</b>								
RoE	28.9	24.4	23.9	23.7	25.5	18.3	19.7	15.5
RoCE	17.8	17.3	18.4	19.1	21.1	15.5	16.5	13.6
RoIC	18.0	17.3	19.5	20.5	23.7	17.7	18.1	14.2
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	5.2	5.6	5.8	4.6	4.5	6.1	7.6	7.0
Asset Turnover (x)	2.3	2.3	2.3	1.8	1.8	1.9	2.1	2.0
Inventory (Days)	52	51	46	46	56	70	70	71
Debtor (Days)	56	62	56	62	61	63	63	63
Creditor (Days)	41	49	40	38	49	51	51	52
<b>Leverage Ratio (x)</b>								
Current Ratio	2.8	2.7	2.7	2.8	2.6	2.8	2.7	2.7
Interest Coverage Ratio	8.2	7.8	10.1	12.9	27.9	25.7	27.5	28.1
Net Debt/Equity ratio	0.6	0.4	0.3	0.2	0.1	0.2	0.2	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	4,484	4,015
Depreciation	472	485	512	622	740	711	765	836
Others	268	249	288	220	79	90	163	138
Direct Taxes Paid	-568	-583	-750	-686	-706	-594	-1,129	-1,011
(Inc.)/Dec. in WC	-1,135	-886	11	113	-186	-3,450	-3,143	110
<b>CF from Operations</b>	<b>1,111</b>	<b>1,454</b>	<b>2,830</b>	<b>3,157</b>	<b>3,651</b>	<b>49</b>	<b>1,140</b>	<b>4,089</b>
Capex	-440	-562	-1,680	-1,414	-1,073	-1,547	-1,000	-1,500
<b>Free Cash Flow</b>	<b>671</b>	<b>891</b>	<b>1,150</b>	<b>1,744</b>	<b>2,578</b>	<b>-1,498</b>	<b>140</b>	<b>2,589</b>
<b>CF from Investments</b>	<b>-426</b>	<b>-546</b>	<b>-1,673</b>	<b>-1,511</b>	<b>-1,647</b>	<b>-841</b>	<b>-1,000</b>	<b>-1,500</b>
Inc./(Dec.) in Debt	-133	-485	-623	562	-951	941	340	-1,500
Interest Paid	-264	-285	-272	-226	-152	-131	-163	-138
Dividend Paid	-173	-127	-298	-940	-495	-142	-815	-730
<b>CF from Fin. Activity</b>	<b>-570</b>	<b>-897</b>	<b>-1,192</b>	<b>-1,434</b>	<b>-1,650</b>	<b>592</b>	<b>-638</b>	<b>-2,368</b>
<b>Inc./Dec. in Cash</b>	<b>115</b>	<b>11</b>	<b>-36</b>	<b>212</b>	<b>354</b>	<b>-201</b>	<b>-497</b>	<b>221</b>
Opening Balance	147	257	271	250	477	815	637	140
<b>Closing Balance</b>	<b>257</b>	<b>270</b>	<b>251</b>	<b>477</b>	<b>815</b>	<b>637</b>	<b>140</b>	<b>361</b>

NOTES

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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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