

Galaxy Surfactants

Speciality segment ailing

Our BUY recommendation on GALSURF with a price target of INR 3,415 is premised on (1) the stickiness of business, as over 50% of the revenue mix comes from MNCs, and (2) the ability to pass on fluctuations in raw material costs to its customers. Q4 EBITDA/APAT were 10/7% lower than our estimates, mainly owing to a 7% fall in revenue, offset by lower-than-expected tax outgo.

- **Q4 revenue** declined by 10/8% QoQ/YoY to INR 9.7bn, owing to deteriorating volume and realisation for the speciality care business. Contraction in speciality care volumes was due to the slowdown in developed markets. Demand in India remained resilient and is improving for premium categories.
- **Q4 margins:** Gross margin improved 82bps QoQ and remained flattish YoY at 32%, owing to a decline in raw material prices. Operating expenses declined 7/18% QoQ/YoY owing to a reduction in freight cost and power and fuel cost. EBITDAM remained flattish QoQ/YoY at 14%.
- **Q4 volume:** Total volume in Q4 remained flat QoQ/YoY at 58kT. Performance surfactant (68% of the volume mix) volume came in at 40kT (+12% YoY), and speciality care (32%) volume came in at 18kT (-18% YoY). India's market grew 14.6% YoY, AMET de-grew 2.5% YoY, and the rest of the world de-grew 15.9% YoY in Q4. Easing inflation along with the normalisation of geopolitical dynamics holds the key for global demand to make a comeback.
- **Change in estimates:** We tweak our FY24/25 EPS estimates by 1.2/2.9% to INR 93.3/116.0 to factor in the overall FY23 performance.
- **DCF-based valuation:** Our price target is INR 3,415 (WACC 10%, terminal growth 4%). The stock is trading at 22x FY25E EPS.

Financial summary (consolidated)

INR mn	Q4 FY23	Q3 FY23	QoQ (%)	Q4 FY22	YoY (%)	FY21	FY22	FY23P	FY24E	FY25E
Net Sales	9,745	10,803	(9.8)	10,529	(7.5)	27,841	36,857	44,452	46,012	50,992
EBITDA	1,345	1,541	(12.7)	1,450	(7.2)	4,488	4,007	5,683	5,138	6,151
APAT	905	1,062	(14.8)	984	(8.0)	3,021	2,628	3,810	3,308	4,113
AEPS (INR)	25.5	30.0	(14.8)	27.8	(8.0)	85.2	74.1	107.5	93.3	116.0
P/E (x)						29.6	34.0	23.4	27.0	21.7
EV/EBITDA(x)						19.6	21.6	15.7	17.6	15.0
RoE (%)						25.5	18.3	22.0	16.4	17.8

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch
EBITDA (INR bn)	5.21	5.14	(1.3)	6.32	6.15	(2.7)
Adj. EPS (INR/sh)	94.4	93.3	(1.2)	119.5	116.0	(2.9)

Source: Company, HSIE Research

BUY

CMP (as on 24 May 23)	INR 2,523
Target Price	INR 3,415
NIFTY	18,285

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 3,445	INR 3,415
EPS % chg	FY24E -1.2%	FY25E -2.9%

KEY STOCK DATA

Bloomberg code	GALSURF IN
No. of Shares (mn)	35
MCap (INR bn) / (\$ mn)	90/1,094
6m avg traded value (INR mn)	51
52 Week high / low	INR 3,448/2,218

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.3	(11.0)	(11.7)
Relative (%)	1.4	(10.2)	(26.0)

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	70.93	70.93
FIs & Local MFs	12.72	12.66
FPIs	2.78	2.90
Public & Others	13.58	13.51
Pledged Shares	0.0	0.0

Source: BSE

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Disclosure:

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