

Galaxy Surfactants

Estimate changes

TP change

Rating change



CMP: INR2,591

TP: INR3,285 (+27%)

Buy

Management confident of volume-led recovery in FY24

- Galaxy Surfactants (GALSURF) reported an EBITDA/kg of INR20.8 (our estimate at INR19.3; down 23% YoY). The ongoing inventory destocking in North America further impacted the performance of the subsidiary. The company achieved a total volume growth of ~7% YoY to 59.4tmt (57.9tmt in 4QFY23), with strong double-digit growth observed in the Performance segment, accompanied by strong domestic volume expansion.
- Management highlighted that India demand remains resilient, with positive demand momentum in premium categories that is expected to drive growth in the upcoming quarters. There was recovery in rural demand as well with demand for mass and masstige categories remaining buoyant. Management is confident that consumption would make a comeback in the developed markets in FY24. This stems from the easing inflation pressures and the EU's adjustment to the evolving paradigm, both contributing to the projected recovery.
- Management remains optimistic, projecting a volume growth of 6-8% for FY24, supported by the belief that the company has overcome the most challenging phase in developed markets. Growth is also expected to make a comeback in Turkey and Egypt in 2HFY24. EBITDA/kg guidance remains at INR20-22.8 for FY24 with the company's focus being majorly on volumes.
- Fatty alcohol price declined 46% YoY to USD1,240/mt in 1QFY24. Realization dropped to INR158.6/kg (down 24% YoY) with gross margin at INR51.4/kg (down 20% YoY). We estimate EBITDA/kg to be at INR22.5 for both FY24 and FY25. That being said, we have not revised our estimates materially for FY24 and FY25 at this point. This cautious approach considers the ongoing potential for the company to achieve a full volume recovery in the export market over the coming period.
- The stock is currently trading at 23.6x FY25E EPS and 14.7x FY25E EV/EBITDA. We value the company at 30x FY25E EPS of INR109.5, to arrive at our TP of INR3,285. **We reiterate our BUY rating on the stock with a potential upside of 27%.**

Beat on EBITDA and PAT, EBITDAM contracted 70bp QoQ

- Revenue was 6% above our estimate at INR9.4b (down 19% YoY)
- EBITDA came in at INR1.2b (est. of INR1.1b, down 17% YoY) with EBITDA/kg at INR20.8.
- GALSURF's gross margin stood at 32.4% (up 160bp YoY), with EBITDAM at 13.1% (down 70bp QoQ) in 1QFY24.
- PAT came in at IN752m (est. of INR710m, down 25% YoY)
- Segmental revenue** stood at INR5.8b for Performance Surfactants and INR3.6b for Specialty Care Products.
- The performance segment posted double-digit volume growth YoY, while Specialty Care volumes declined low-single digit YoY.
- Total volumes** grew 7.4% YoY in 1QFY24.



Bloomberg	GALSURF IN
Equity Shares (m)	35
M.Cap.(INRb)/(USDb)	91.9 / 1.1
52-Week Range (INR)	3445 / 2218
1, 6, 12 Rel. Per (%)	2/-1/-29
12M Avg Val (INR M)	66

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	44.5	43.0	46.2
EBITDA	5.7	5.6	5.9
PAT	3.8	3.6	3.9
EPS (INR)	107	101	110
EPS Gr. (%)	45.0	-6.2	8.7
BV/Sh.(INR)	531	611	698

Ratios

Net D:E	0.0	-0.1	-0.2
RoE (%)	22.0	17.6	16.7
RoCE (%)	19.2	16.7	16.5
Payout (%)	20.5	20.5	20.5

Valuations

P/E (x)	24.1	25.7	23.6
P/BV (x)	4.9	4.2	3.7
EV/EBITDA (x)	16.2	16.1	14.7
Div. Yield (%)	0.9	0.8	0.9
FCF Yield (%)	4.7	3.9	3.1

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	70.9	70.9	70.9
DII	12.7	12.7	13.6
FII	3.0	2.9	2.0
Others	13.4	13.5	13.4

FII Includes depository receipts

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- Domestic volumes witnessed a strong double-digit growth YoY.
- AMET volumes were flat YoY, but dipped QoQ due to Eid Holidays.
- ROW volumes declined by low-single digits YoY.

Valuation and view

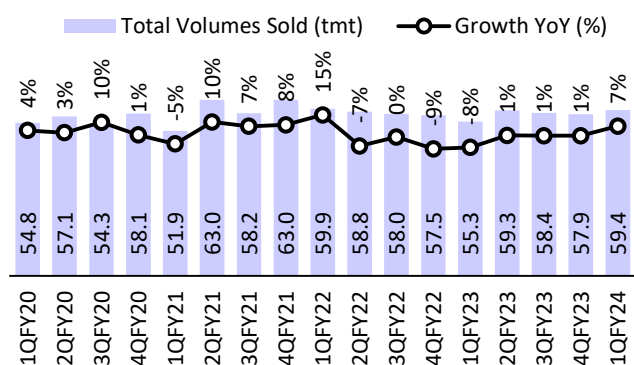
- The continued focus on R&D (with an annual expenditure of INR400- 500m) and increased wallet share from its existing customers is likely to drive volume growth. Capex would be undertaken in India and Egypt as well in both the segments: Performance Surfactants and Specialty Care products.
- The stock is currently trading at 23.6x FY25E EPS and 14.7x FY25E EV/EBITDA. We value the company at 30x FY25E EPS of INR109.5, to arrive at our TP of INR3,285. **We reiterate our BUY rating on the stock with a potential upside of 27%.**

Consolidated - Quarterly Snapshot

Y/E March	FY23				FY24				FY23	FY24E	FY24E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE		
Gross Sales	11,589	12,316	10,803	9,745	9,418	10,043	11,278	12,225	44,452	42,964	8,884	6%
YoY Change (%)	40.2	40.4	16.3	-7.5	-18.7	-18.5	4.4	25.5	20.6	-3.3	-23.3	
Gross Margin (%)	30.8%	26.9%	31.6%	32.4%	32.4%	30.6%	29.2%	28.0%	30.3%	29.9%	29.8%	2.5%
EBITDA	1,480	1,317	1,541	1,345	1,232	1,262	1,481	1,581	5,683	5,556	1,134	9%
Margin (%)	12.8	10.7	14.3	13.8	13.1	12.6	13.1	12.9	12.8	12.9	12.8	0.3
Depreciation	189	205	216	225	238	240	242	244	835	963	227	
Interest	44	56	56	61	57	59	58	61	217	234	62	
Other Income	-20	11	37	70	25	35	22	36	99	118	44	
PBT	1,227	1,067	1,307	1,129	962	999	1,203	1,313	4,729	4,476	889	8%
Tax	223	228	245	224	210	205	245	244	920	904	179	
Rate (%)	18.2	21.4	18.7	19.8	21.8	20.5	20.4	18.6	19.4	20.2	20.2	
Reported PAT	1,004	839	1,062	905	752	794	957	1,069	3,810	3,572	710	6%
YoY Change (%)	30.7	100.0	132.8	-8.0	-25.1	-5.3	-9.9	18.0	45.0	-6.2	-29.3	
Margin (%)	8.7	6.8	9.8	9.3	8.0	7.9	8.5	8.7	8.6	8.3	8.0	-0.0
Total Volumes (tmt)	55.3	59.3	58.4	57.9	59.4	61.1	61.7	64.7	230.8	246.9	58.6	1%
Operating Performance (INR/kg)												
Implied realization (INR/kg)	209.7	207.8	185.1	168.4	158.6	164.3	182.7	188.9	192.6	174.0	151.5	5%
Gross margin (INR/kg)	64.6	55.9	58.5	54.6	51.4	50.3	53.4	52.8	58.3	52.0	45.2	14%
EBITDA (INR/kg)	26.8	22.2	26.4	23.2	20.8	20.7	24.0	24.4	24.6	22.5	19.3	7%

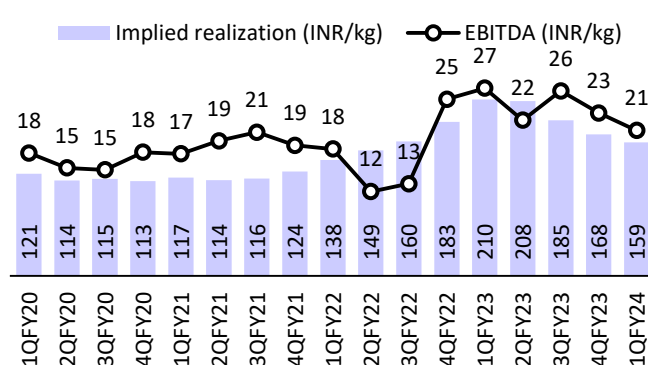
Quarter in charts: 1QFY24

Exhibit 1: Total volumes up 7.4% YoY



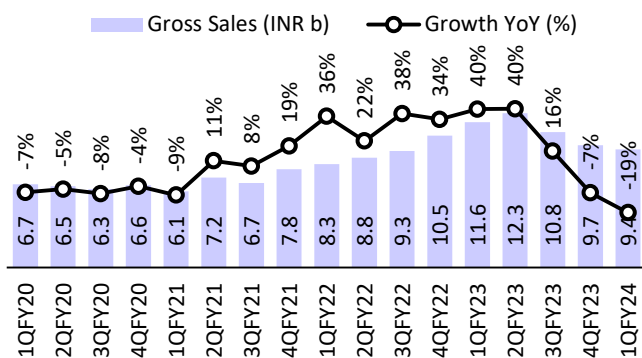
Source: Company, MOFSL

Exhibit 2: ...with EBITDA/kg at INR20.8 (down 23% YoY)



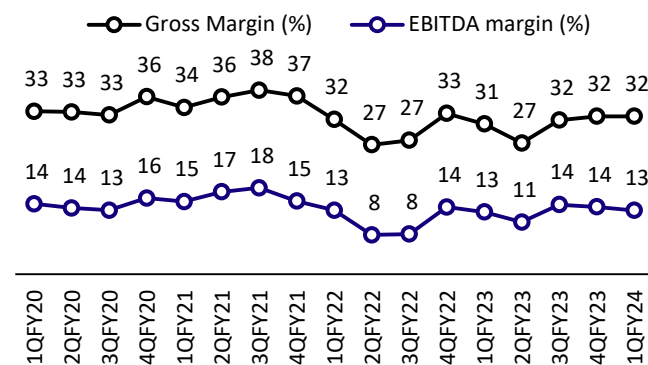
Source: Company, MOFSL

Exhibit 3: Gross sales declined 19% YoY as realization declined



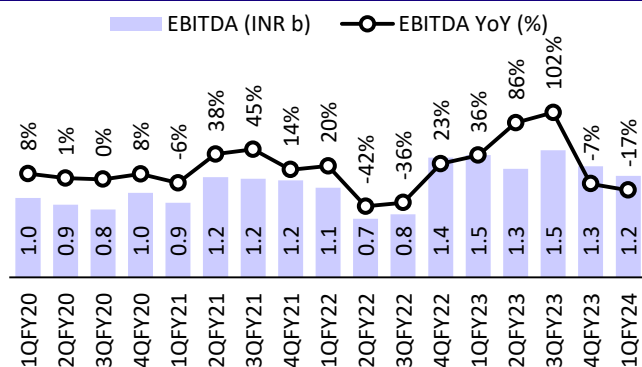
Source: Company, MOFSL

Exhibit 4: Gross margin was flat, while EBITDAM declined QoQ



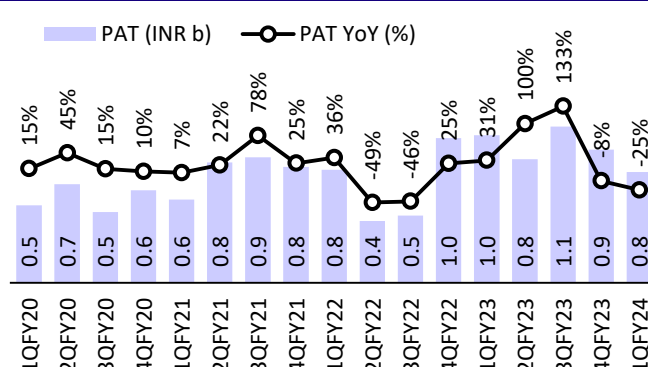
Source: Company, MOFSL

Exhibit 5: EBITDA declined 17% YoY

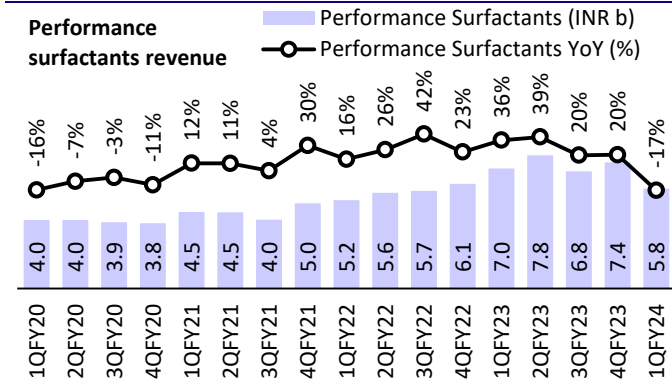


Source: Company, MOFSL

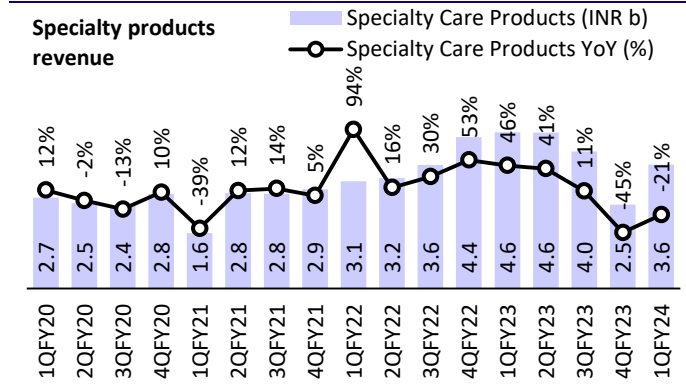
Exhibit 6: ...with PAT also declining 25% YoY



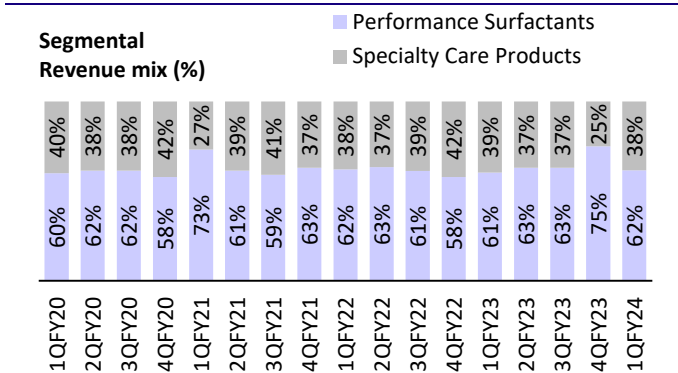
Source: Company, MOFSL

Exhibit 7: Performance surfactants revenue stood at INR5.8b

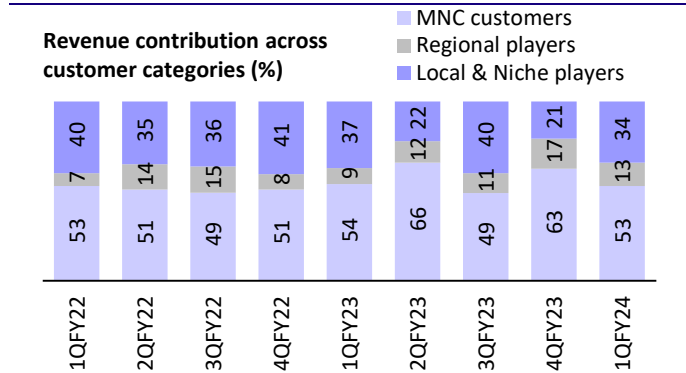
Source: Company, MOFSL

Exhibit 8: Specialty Care products revenue stood at INR3.6b

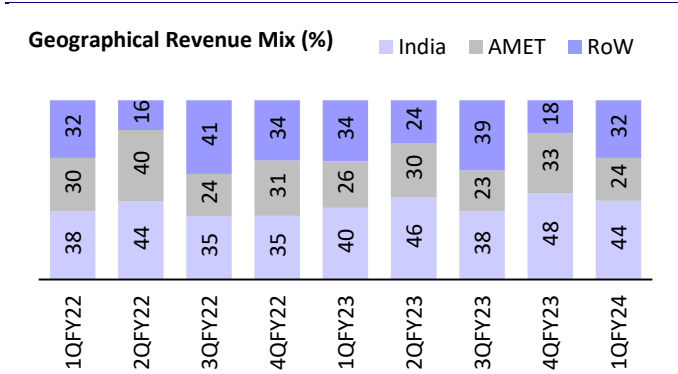
Source: Company, MOFSL

Exhibit 9: Mix of Specialty segment increased QoQ

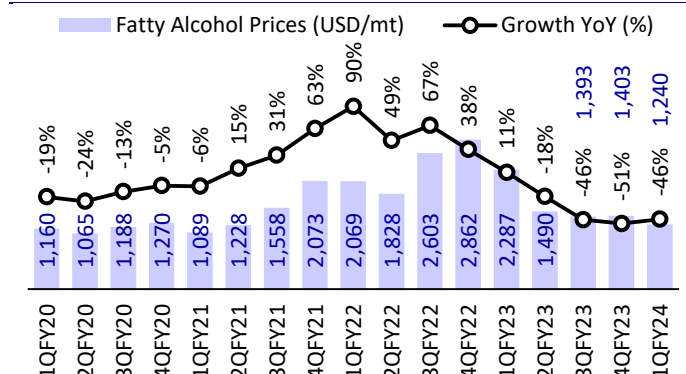
Source: Company, MOFSL

Exhibit 10: Contribution of local & niche players to overall revenues increased

Source: Company, MOFSL

Exhibit 11: Geographical revenue mix improving for RoW

Source: Company, MOFSL

Exhibit 12: Fatty Alcohol price declined 46% YoY

Source: Company, MOFSL

Key highlights from the management commentary

- Easing inflation pressures and the EU's adjustment to the evolving paradigm, both are expected to contribute to the projected recovery.
- Consumption to make a comeback from FY24.
- Growth to make a comeback in 2HFY24 in Turkey and Egypt.
- The ongoing inventory destocking in North America further impacted the performance of the subsidiary
- 2HFY24 to be better than 1HFY24
- EBITDA/kg guidance of INR20-22.75 for FY24
- Domestic volume growth should sustain, unless adverse rains affect demand
- Premiumization at play in India which company would also focus on
- Egypt plant running at 68-70% utilization
- Capex would involve investments in both India and Egypt, spanning across both the segments of the company
- With food inflation on the rise once again, there is a looming risk of an increase in prices for Fatty Alcohol and Fatty Acid.
- Decline in lower RM prices have been passed on to the customers.
- Management remains optimistic, supported by the belief that the company has overcome the most challenging phase in developed markets.
- GALSURF's premium offerings are integrated into sulphate-free shampoos, a product category that commands a higher price point in comparison to conventional shampoos.
- Backward integration will not help in increasing margin stability.

Story in charts

Exhibit 13: Steady market share of Specialty products

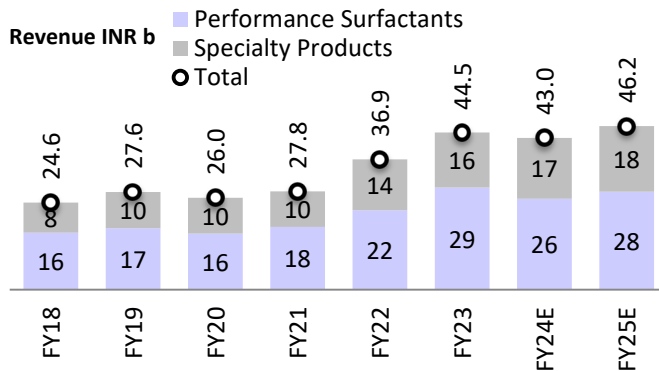


Exhibit 14: EBITDA/mt snapshot

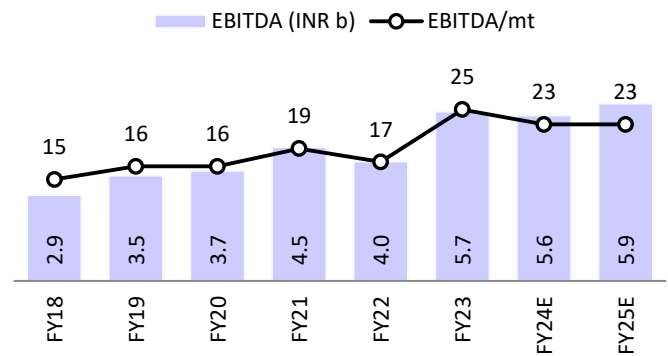


Exhibit 15: Expect capacity utilization to ramp up...

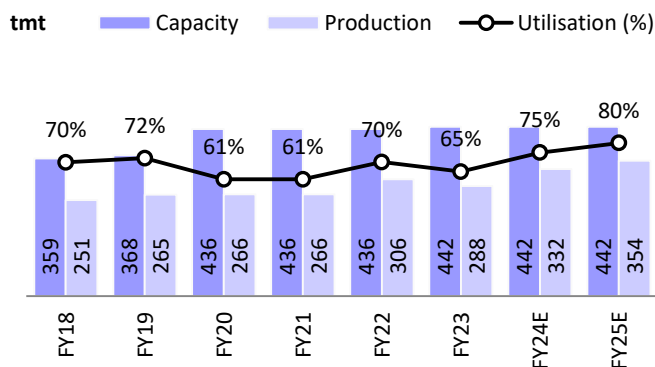


Exhibit 16: ...with higher volume growth in FY24-25

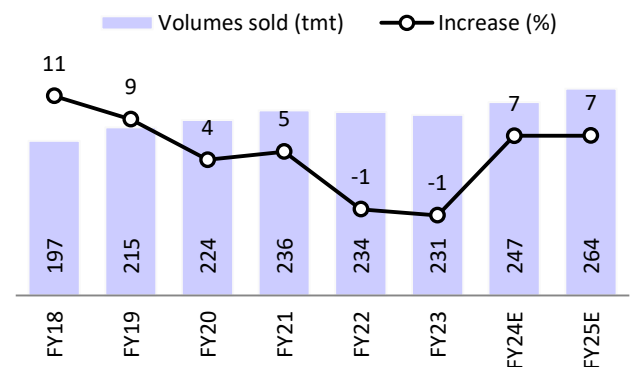


Exhibit 17: One-year forward P/E trades at 25.6x...

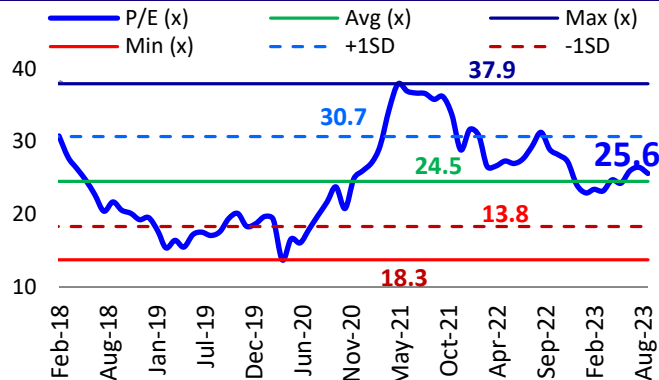


Exhibit 18: ...expect PAT margin to normalize

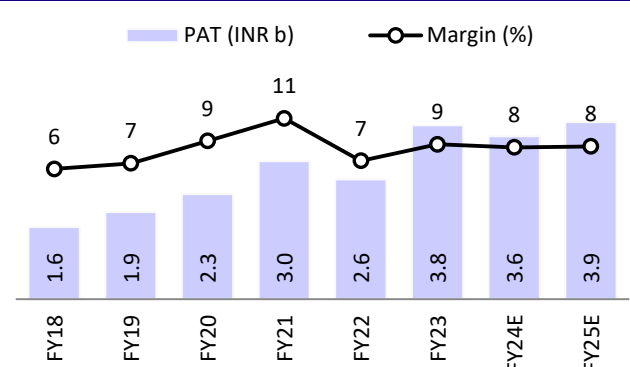


Exhibit 19: GALSURF is likely to generate an FCF of INR6.4b...

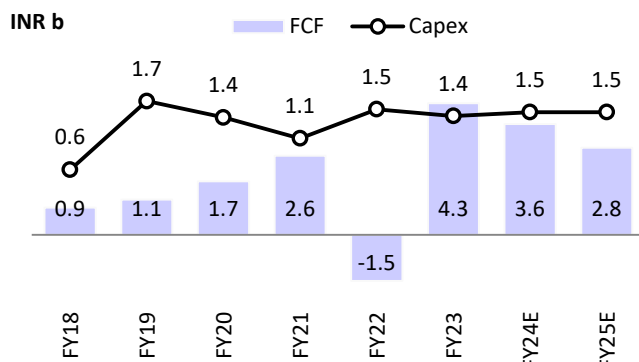
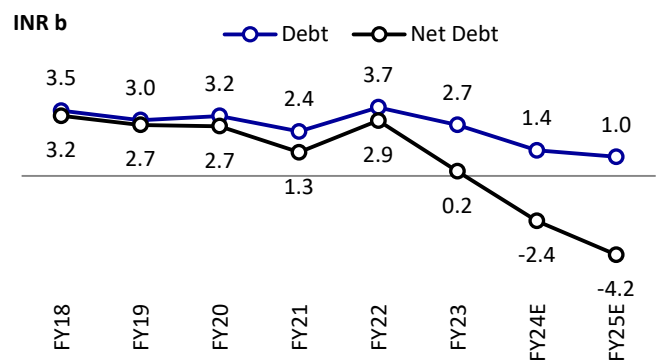


Exhibit 20: ...and become a net cash company by FY24



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	24,625	27,630	25,964	27,841	36,857	44,452	42,964	46,239
Change (%)	9.5	12.2	-6.0	7.2	32.4	20.6	-3.3	7.6
Gross Margin (%)	28.9	29.5	33.9	36.3	29.8	30.3	29.9	29.1
EBITDA	2,877	3,534	3,689	4,488	4,007	5,683	5,556	5,945
Margin (%)	11.7	12.8	14.2	16.1	10.9	12.8	12.9	12.9
Depreciation	485	512	622	740	711	835	963	967
EBIT	2,392	3,022	3,067	3,749	3,297	4,848	4,593	4,978
Int. and Finance Charges	306	300	238	134	129	217	234	238
Other Income	101	47	59	109	125	99	118	125
PBT bef. EO Exp.	2,188	2,769	2,888	3,723	3,293	4,730	4,476	4,865
PBT after EO Exp.	2,188	2,769	2,888	3,723	3,293	4,730	4,476	4,865
Total Tax	607	859	584	702	665	920	904	983
Tax Rate (%)	27.8	31.0	20.2	18.8	20.2	19.4	20.2	20.2
Reported PAT	1,580	1,910	2,304	3,021	2,628	3,810	3,572	3,882
Adjusted PAT	1,580	1,910	2,304	3,021	2,628	3,810	3,572	3,882
Change (%)	7.1	20.9	20.6	31.1	-13.0	45.0	-6.2	8.7
Margin (%)	6.4	6.9	8.9	10.9	7.1	8.6	8.3	8.4

Consolidated - Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	355	355	355	355	355	355	355	355
Total Reserves	6,833	8,413	10,323	12,660	15,389	18,471	21,312	24,399
Net Worth	7,188	8,767	10,678	13,014	15,744	18,826	21,666	24,754
Total Loans	3,480	2,978	3,196	2,374	3,660	2,718	1,359	1,019
Deferred Tax Liabilities	277	320	241	233	249	283	283	283
Capital Employed	10,944	12,065	14,115	15,621	19,652	21,827	23,309	26,056
Gross Block	8,548	9,722	11,525	11,945	12,828	15,302	16,802	18,302
Less: Accum. Deprn.	4,148	4,609	5,231	5,971	6,681	7,516	8,479	9,446
Net Fixed Assets	4,399	5,112	6,294	5,974	6,146	7,786	8,322	8,855
Goodwill on Consolidation	24	25	28	27	28	30	30	30
Capital WIP	249	826	660	1,240	2,055	1,392	1,392	1,392
Total Investments	1	0	58	435	5	0	0	0
Curr. Assets, Loans&Adv.	9,881	9,717	11,081	12,821	17,772	18,137	18,890	21,515
Inventory	3,456	3,513	3,250	4,278	7,118	6,458	6,231	6,712
Account Receivables	4,182	4,268	4,394	4,689	6,380	6,148	5,942	6,395
Cash and Bank Balance	276	257	542	1,114	711	2,476	3,761	5,232
Cash	271	250	477	815	638	2,319	3,604	5,075
Bank balance	5	7	65	299	74	157	157	157
Loans and Advances	1,966	1,680	2,894	2,740	3,563	3,055	2,955	3,176
Curr. Liability & Prov.	3,610	3,615	4,005	4,874	6,353	5,518	5,326	5,736
Account Payables	3,278	3,059	2,731	3,770	5,189	4,302	4,151	4,471
Other Current Liabilities	230	416	1,098	918	1,011	1,082	1,045	1,125
Provisions	102	140	176	186	153	134	130	140
Net Current Assets	6,271	6,102	7,075	7,947	11,419	12,620	13,564	15,779
Appl. of Funds	10,944	12,065	14,115	15,621	19,652	21,827	23,309	26,056

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	44.6	53.9	65.0	85.2	74.1	107.5	100.8	109.5
EPS Growth (%)	7.1	20.9	20.6	31.1	-13.0	45.0	-6.2	8.7
Cash EPS	58.3	68.3	82.5	106.1	94.2	131.0	127.9	136.8
BV/Share	202.8	247.3	301.2	367.1	444.1	531.0	611.2	698.3
DPS	3.0	12.0	17.0	18.0	18.0	22.0	20.6	22.4
Payout (%)	8.1	26.9	31.5	21.1	24.3	20.5	20.5	20.5
Valuation (x)								
P/E	58.0	48.0	39.8	30.3	34.9	24.1	25.7	23.6
Cash P/E	44.4	37.8	31.3	24.4	27.4	19.7	20.2	18.9
P/BV	12.7	10.5	8.6	7.0	5.8	4.9	4.2	3.7
EV/Sales	3.9	3.4	3.6	3.3	2.6	2.1	2.1	1.9
EV/EBITDA	33.0	26.7	25.6	20.7	23.6	16.2	16.1	14.7
Dividend Yield (%)	0.1	0.5	0.7	0.7	0.7	0.9	0.8	0.9
FCF per share	25.1	32.4	49.2	72.7	-42.3	121.0	101.8	80.2
Return Ratios (%)								
RoE	24.4	23.9	23.7	25.5	18.3	22.0	17.6	16.7
RoCE	17.3	18.4	19.1	21.1	15.5	19.2	16.7	16.5
RoIC	17.3	19.5	20.5	23.7	17.7	22.4	20.3	21.1
Working Capital Ratios								
Fixed Asset Turnover (x)	5.6	5.8	4.6	4.5	6.1	6.4	5.3	5.4
Asset Turnover (x)	2.3	2.3	1.8	1.8	1.9	2.0	1.8	1.8
Inventory (Days)	51	46	46	56	70	53	53	53
Debtor (Days)	62	56	62	61	63	50	50	50
Creditor (Days)	49	40	38	49	51	35	35	35
Leverage Ratio (x)								
Current Ratio	2.7	2.7	2.8	2.6	2.8	3.3	3.5	3.8
Interest Cover Ratio	7.8	10.1	12.9	27.9	25.7	22.3	19.6	20.9
Net Debt/Equity	0.4	0.3	0.2	0.1	0.2	0.0	-0.1	-0.2

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	2,188	2,769	2,888	3,723	3,293	4,730	4,476	4,865
Depreciation	485	512	622	740	711	835	963	967
Others	249	288	220	79	90	214	234	238
Direct Taxes Paid	-583	-750	-686	-706	-594	-953	-904	-983
(Inc)/Dec in WC	-886	11	113	-186	-3,450	903	341	-744
CF from Operations	1,454	2,830	3,157	3,651	49	5,729	5,110	4,343
Capex	-562	-1,680	-1,414	-1,073	-1,547	-1,439	-1,500	-1,500
Free Cash Flow	891	1,150	1,744	2,578	-1,498	4,291	3,610	2,843
CF from Investments	-546	-1,673	-1,511	-1,647	-841	-1,486	-1,500	-1,500
Inc/(Dec) in Debt	-485	-623	562	-951	941	-1,039	-1,359	-340
Interest Paid	-285	-272	-226	-152	-131	-241	-234	-238
Dividend Paid	-127	-298	-940	-495	-142	-1,275	-731	-795
CF from Fin. Activity	-897	-1,192	-1,434	-1,650	592	-2,643	-2,325	-1,372
Inc/Dec of Cash	11	-36	212	354	-201	1,601	1,286	1,471
Opening Balance	257	271	250	477	815	637	2,318	3,604
Closing Balance	270	251	477	815	637	2,318	3,604	5,075

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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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