

22 May 2024

India | Equity Research | Q4FY24 results review

Galaxy Surfactants

Speciality Chemicals

As expected, EBITDA/kg guidance raised by INR 1 to INR 20.5–21.5 for FY25E

Galaxy Surfactants' (GSL) Q4FY24 EBITDA/kg stood at INR 16.9, down 27.2% YoY, was hurt from higher freight cost and lower volumes due to the Red Sea issue. GSL guides for volume growth of 6–8% in FY25 with an upside bias, as AMET and RoW may possibly contribute more, should the disturbances cease to escalate and/or dissipate. However, GSL has increased its EBITDA/kg guidance by INR 1 to INR 20.5–21.5/kg - we anticipated this and have penned it down in our detailed note ([link](#)). We were concerned about volumes moderating; however, GSL appears quite confident about sustaining it. We raise our FY25E/26E EPS by ~3% each, baking in higher other income. Our revised target price is now INR 2,520 (from INR 2,440), valuing GSL at a PE multiple of 22x FY26E EPS (unchanged). Maintain **HOLD**.

Volume grew 3.8% YoY; faced transient headwinds

GSL's revenue dipped 4.7% YoY to INR 9.3bn, affected by realisation dipping 8.2% to INR 155/kg amid lower input cost. However, the slouch in realisation, thus revenue, was partly offset by a recovery in the premium (prestige) segment and volumes rising 3.8% YoY to 60kte. Volume growth has been slower than its recent rate of 8–9% YoY due to: 1) AMET volume slipping 12.5% YoY due to the Red Sea disruption in Jan'24, which the company was unable to fully recoup in the ensuing two months; and 2) volume in India growing at 4%, the slowest in past few quarters; GSL believes the slack to be transient, and remains firm on growth momentum in India. RoW was the bright spot as volumes grew 32% with destocking behind, and a low base. Performance surfactants' volumes dipped 5% YoY amid weakness in AMET and India; specialty care products volumes grew 25% YoY on recovery in RoW.

GSL guides for volume growth of 6–8% for FY25, which it believes can be surpassed if India volume growth sustains at higher levels [4Q being transient], AMET has no more disruption and RoW continues path of recovery. GSL feels H2FY25 will likely be stronger for the company as customers start re-stocking. The company has grown in India with new customer addition, and winning more wallet share from existing customers. RoW will do well as volumes for premium products pick up again, and consequently aid improving mix and margins. GSL does not expect Red Sea issue to take further toll on volumes. AMET volumes would have likely been higher by 2.5kte if the situation were normal in Q4FY24.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	44,452	37,944	40,497	41,503
EBITDA	5,683	4,622	5,546	6,065
EBITDA Margin (%)	12.8	12.2	13.7	14.6
Net Profit	3,810	3,015	3,695	4,066
EPS (INR)	107.5	85.0	104.2	114.7
EPS % Chg YoY	45.0	(20.9)	22.6	10.0
P/E (x)	23.7	29.9	24.4	22.2
EV/EBITDA (x)	15.9	18.9	15.5	13.8
RoCE (%)	19.1	13.0	14.6	14.4
RoE (%)	22.0	14.8	16.0	15.8

Sanjesh Jain

sanjesh.jain@icicisecurities.com
+91 22 6807 7153

Ashvik Jain

ashvik.jain@icicisecurities.com

Market Data

Market Cap (INR)	90bn
Market Cap (USD)	1,083mn
Bloomberg Code	GALSURF IN
Reuters Code	GALX NS
52-week Range (INR)	2,989 / 2,241
Free Float (%)	29.0
ADTV-3M (mn) (USD)	1.0

Price Performance (%)	3m	6m	12m
Absolute	0.8	(9.5)	(2.6)
Relative to Sensex	(0.4)	(22.1)	(22.4)

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.0	0.0
EBITDA	(1.9)	(1.8)
EPS	2.6	3.4

Previous Reports

10-04-2024: [Company Update](#)

11-11-2023: [Q2FY24 results review](#)

Gross profit/kg rise was not sufficient to off-set higher cost

Gross profit was down 4% YoY to INR 3bn. Gross profit margin was at 32.6% (+80bp QoQ), and gross profit per kg was at INR 50.4 vs. INR 46.6 in Q3FY24. The gross profit/kg expansion is likely due to higher contribution of specialty and RoW volumes; and lower volumes for performance and AMET. However, EBITDA plunged 24.4% YoY to INR 1bn, as the company witnessed higher cost inflation from the rise in freight cost (Red Sea issue), which it could not pass on immediately. EBITDA/kg stood at INR 16.9, down 27.2% YoY in Q4FY24 – much below its guidance. Net profit decline was restricted to 14.4% YoY to INR 775 due to a lower tax rate (17.5% in Q4FY24).

EBITDA/kg guidance raised to INR 20.5–21.5 (up by INR 1)

We anticipated GSL to increase its EBITDA/kg guidance by INR 1 in our note ([link](#)). GSL expects volume growth for its premium products to accelerate in FY25 as US and Europe volumes recover, and with possible re-stocking. The company has significantly expanded its capacities in the specialty segment, which should help capture growing demand. Further, GSL expects to pass-on the higher freight costs to customers, which should help recoup margins lost in H2FY24.

Other highlights

- GSL expects AMET volumes to grow in double-digit in FY25, and RoW to grow faster on a low base. India will likely sustain momentum. Yet, it has conservatively guided for volume growth of 6–8%.
- Specialty's peak capacity production is 105kte (at 85% utilisation rate) while its sales in FY24 was 89kte.
- Capex guided to be steady at INR 1.5–2bn p.a.
- The company is also looking at inorganic growth opportunities.
- Dividend for FY24 was INR 22/share (FY23: INR 18).

Risks

Upside risk: Significant improvement in EBITDA/kg on ramp-up in prestige segment; and faster-than-expected volume growth in specialty care products.

Downside risk: Deterioration of India volumes; and continued turbulence in AMET.

Exhibit 1: Galaxy Surfactants – consolidated financials

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Revenue	9,745	9,418	9,831	9,405	9,290	(1.2)	(4.7)
Cost of Goods sold	6,588	6,367	6,738	6,415	6,259	(2.4)	(5.0)
Gross profit	3,157	3,051	3,093	2,990	3,031	1.4	(4.0)
Gross profit margin (%)	32.4	32.4	31.5	31.8	32.6		
Employee cost	635	713	646	676	720	6.4	13.3
Other expenses	1,177	1,106	1,198	1,189	1,295	8.9	10.0
Total expenses	1,812	1,819	1,844	1,865	2,014	8.0	11.2
EBITDA	1,345	1,232	1,249	1,125	1,017	(9.6)	(24.4)
EBITDA margin (%)	13.8	13.1	12.7	12.0	10.9		
Depreciation	225	238	247	251	262	4.3	16.5
EBIT	1,120	994	1,002	874	754	(13.6)	(32.6)
EBIT margin (%)	11.5	10.6	10.2	9.3	8.1		
Other income	70	25	27	64	239	274.8	240.1
Finance cost	61	57	54	59	54	(8.6)	(12.1)
PBT	1,129	962	975	878	940	7.0	(16.8)
Tax expenses	224	210	201	165	165	(0.1)	(26.4)
ETR (%)	19.8	21.8	20.6	18.8	17.5		
PAT	905	752	774	714	775	8.6	(14.4)
Net profit margin (%)	9.3	8.0	7.9	7.6	8.3		
EPS (INR)	25.5	21.2	21.8	20.1	21.9	8.6	(14.4)

Source: I-Sec research, Company data

Exhibit 2: Galaxy Surfactants (consolidated) – total volume rose 3.8% YoY

	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Segmental volumes (te)							
Performance surfactants	39,625	39,625	H-SD Gwth	H-SD Gwth	Dip 5% YoY		
Specialty care products	18,241	19,737	DD Gwth	L-DD Gwth	Grew 25% YoY		
Total volumes (te)	57,866	59,362	65,093	64,084	60,079	(6.2)	3.8
Segmental volumes mix (%)							
Performance surfactants	68.5	66.8					
Specialty care products	31.5	33.2					

Source: I-Sec research, Company data, Note: SD - Single digit; DD - Double digit; H - High & L - Low

Exhibit 3: Galaxy Surfactants (consolidated) – RoW volume

%	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	
AMET	(2.5)	Flat	H-SD Gwth	L-DD Gwth		Dip 12.5% YoY
India	14.6	DD Gwth	DD Gwth	L-SD Gwth		Grew 4% YoY
RoW	(15.9)	LSD Gwth	L-SD Gwth	H-SD Gwth		Grew 32% YoY

Source: I-Sec research, Company data; Note: SD - Single digit; DD - Double digit; H - High & L - Low

Exhibit 4: Galaxy Surfactants' (consolidated) per-kg analysis

(INR /kg)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Revenue	168	159	151	147	155	5.4	(8.2)
Raw material cost	114	107	104	100	104	4.1	(8.5)
Gross profit	54.6	51.4	47.5	46.6	50.4	8.1	(7.5)
Operating cost	31.3	30.6	28.3	29.1	33.5	15.2	7.1
EBITDA	23.2	20.8	19.2	17.6	16.9	(3.6)	(27.2)

Source: Company data, I-Sec research

Exhibit 5: Galaxy Surfactants – standalone financials

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Revenue	6,774	6,529	7,133	6,734	7,057	4.8	4.2
Cost of Goods sold	4,675	4,625	5,160	4,809	5,067	5.4	8.4
Gross profit	2,099	1,904	1,973	1,925	1,990	3.4	(5.2)
Gross profit margin (%)	31.0	29.2	27.7	28.6	28.2		
Employee cost	369	393	369	393	395	0.5	6.9
Other expenses	775	701	729	742	890	20.0	14.9
Total expenses	1,144	1,093	1,098	1,135	1,285	13.2	12.3
EBITDA	955	811	874	790	705	(10.7)	(26.2)
EBITDA margin (%)	14.1	12.4	12.3	11.7	10.0		
Depreciation	145	156	156	157	158	0.5	9.1
EBIT	811	655	718	633	547	(13.5)	(32.5)
EBIT margin (%)	12.0	10.0	10.1	9.4	7.8		
Other income	27	70	39	87	44		
Finance cost	35	33	27	35	29	(17.0)	(17.2)
PBT	803	692	730	685	562	(18.0)	(30.0)
Tax expenses	208	175	180	169	142	(16.1)	(31.6)
ETR (%)	25.9	25.3	24.7	24.7	25.3		
PAT	595	517	550	516	420	(18.6)	(29.4)
Net profit margin (%)	8.8	7.9	7.7	7.7	6.0		

Source: I-Sec research, Company data

Exhibit 6: Galaxy Surfactants – international business (consolidated less standalone)

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Revenue	2,970	2,889	2,698	2,671	2,233	(16.4)	(24.8)
Cost of Goods sold	1,913	1,742	1,578	1,606	1,192	(25.8)	(37.7)
Gross profit	1,058	1,147	1,121	1,065	1,040	(2.3)	(1.6)
Gross profit margin (%)	35.6	39.7	41.5	39.9	46.6		
Employee cost	266	321	277	283	325	14.7	22.2
Other expenses	402	405	469	447	404	(9.5)	0.6
Total expenses	668	726	746	730	729	(0.1)	9.2
EBITDA	390	421	375	335	311	(7.1)	(20.1)
EBITDA margin (%)	13.1	14.6	13.9	12.5	13.9		
Depreciation	80	83	91	94	104	10.7	29.9
EBIT	309	339	284	241	207	(14.0)	(33.1)
EBIT margin (%)	10.4	11.7	10.5	9.0	9.3		
Other income	43	(45)	(12)	(23)	196		
Finance cost	27	24	27	24	25	3.3	(5.3)
PBT	326	269	245	193	377	95.5	15.7
Tax expenses	16	35	21	(5)	23		40.6
ETR (%)	4.9	13.0	8.4	(2.4)	6.0		
PAT	310	234	224	198	355	79.5	14.4
Net profit margin (%)	10.4	8.1	8.3	7.4	15.9		

Source: I-Sec research, Company data

Exhibit 7: Earnings revision

INR mn	Revised		Earlier		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	40,497	41,503	40,488	41,484	0.0	0.0
Gross profit	13,691	14,861	13,746	14,913	(0.4)	(0.3)
GP margin (%)	33.8	35.8	34.0	36.0		
EBITDA	5,546.2	6,064.6	5,655.0	6,175.5	(1.9)	(1.8)
EBITDA (%)	13.7	14.6	14.0	14.9		
PAT	3,695	4,066	3,603	3,934	2.6	3.4
EPS (INR)	104.2	114.7	101.6	111.0	2.6	3.4

Source: I-Sec research, Company data

Exhibit 8: Shareholding pattern

%	Sep '23	Dec '23	Mar '24
Promoters	70.9	70.9	70.9
Institutional investors	15.6	16.1	16.5
MFs and others	11.6	11.7	11.9
FIs/Banks	-	-	-
Insurance	0.5	0.5	0.7
FIIIs	3.5	3.9	3.9
Others	13.4	13.0	12.6

Source: Bloomberg

Exhibit 9: Price chart

Source: Bloomberg

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	44,452	37,944	40,497	41,503
Operating Expenses	38,770	33,322	34,951	35,438
EBITDA	5,683	4,622	5,546	6,065
EBITDA Margin (%)	12.8	12.2	13.7	14.6
Depreciation & Amortization	835	998	1,098	1,138
EBIT	4,848	3,624	4,448	4,926
Interest expenditure	217	224	189	189
Other Non-operating Income	-	-	-	-
Recurring PBT	4,730	3,755	4,631	5,128
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	920	740	936	1,062
PAT	3,810	3,015	3,695	4,066
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	3,810	3,015	3,695	4,066
Net Income (Adjusted)	3,810	3,015	3,695	4,066

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	16,019	15,040	17,030	19,612
of which cash & cash eqv.	2,476	2,393	3,532	5,779
Total Current Liabilities & Provisions	4,972	5,171	5,524	5,663
Net Current Assets	11,047	9,869	11,506	13,949
Investments	-	1,980	1,980	1,980
Net Fixed Assets	9,208	9,910	10,812	11,174
ROU Assets	90	109	50	50
Capital Work-in-Progress	1,392	1,585	1,585	1,585
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax Assets	67	88	88	88
Total Assets	27,345	29,147	32,088	35,051
Liabilities				
Borrowings	2,718	1,317	1,317	1,317
Deferred Tax Liability	283	297	297	297
Provisions	61	77	77	77
Other Liabilities	485	493	526	539
Equity Share Capital	355	355	355	355
Reserves & Surplus	18,471	21,438	23,993	26,804
Total Net Worth	18,826	21,793	24,347	27,158
Minority Interest	-	-	-	-
Total Liabilities	27,345	29,147	32,088	35,051

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	9,418	9,831	9,405	9,290
% Growth (YOY)	(18.7)	(20.2)	(12.9)	(4.7)
EBITDA	1,232	1,249	1,125	1,017
Margin %	13.1	12.7	12.0	10.9
Other Income	25	27	64	239
Extraordinaries	-	-	-	0
Adjusted Net Profit	752	774	714	775

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	4,826	4,074	4,610	5,003
Working Capital Changes	903	1,110	(514)	(202)
Capital Commitments	(1,461)	(1,583)	(2,000)	(1,500)
Free Cashflow	4,269	3,601	2,097	3,300
Other investing cashflow	(47)	(1,876)	372	391
Cashflow from Investing Activities	(25)	(1,857)	372	391
Issue of Share Capital	-	-	-	-
Interest Cost	(241)	(235)	(189)	(189)
Inc (Dec) in Borrowings	(1,039)	(1,404)	-	-
Dividend paid	(1,275)	(143)	(1,141)	(1,255)
Others	(88)	(107)	-	-
Cash flow from Financing Activities	(2,643)	(1,889)	(1,330)	(1,444)
Chg. in Cash & Bank balance	1,601	(144)	1,139	2,247
Closing cash & balance	2,319	2,332	3,532	5,779

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	107.5	85.0	104.2	114.7
Adjusted EPS (Diluted)	107.5	85.0	104.2	114.7
Cash EPS	131.0	113.2	135.2	146.8
Dividend per share (DPS)	18.0	22.0	32.2	35.4
Book Value per share (BV)	531.0	614.7	686.8	766.1
Dividend Payout (%)	16.7	25.9	30.9	30.9
Growth (%)				
Net Sales	20.6	(14.6)	6.7	2.5
EBITDA	41.8	(18.7)	20.0	9.3
EPS (INR)	45.0	(20.9)	22.6	10.0
Valuation Ratios (x)				
P/E	23.7	29.9	24.4	22.2
P/CEPS	19.4	22.5	18.8	17.3
P/BV	4.8	4.1	3.7	3.3
EV / EBITDA	15.9	18.9	15.5	13.8
EV/SALES	2.0	2.3	2.1	2.0
Dividend Yield (%)	0.7	0.9	1.3	1.4
Operating Ratios				
Gross Profit Margins (%)	30.3	32.1	33.8	35.8
EBITDA Margins (%)	12.8	12.2	13.7	14.6
Effective Tax Rate (%)	19.4	19.7	20.2	20.7
Net Profit Margins (%)	8.6	7.9	9.1	9.8
NWC / Total Assets (%)	31.3	25.6	24.8	23.3
Net Debt / Equity (x)	0.0	(0.1)	(0.2)	(0.2)
Net Debt / EBITDA (x)	0.0	(0.7)	(0.8)	(1.1)
Profitability Ratios				
RoCE (%)	19.1	13.0	14.6	14.4
RoE (%)	22.0	14.8	16.0	15.8
RoC (%)	20.7	15.4	18.3	19.1
Fixed Asset Turnover (x)	3.0	2.3	2.2	2.1
Inventory Turnover Days	53.0	53.5	53.5	53.5
Receivables Days	50.5	57.1	57.1	57.1
Payables Days	35.3	42.9	42.9	42.9

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
