

Galaxy Surfactants

Estimate changes



TP change



Rating change



Bloomberg	GALSURF IN
Equity Shares (m)	35
M.Cap.(INRb)/(USD\$)	89.9 / 1.1
52-Week Range (INR)	2989 / 2241
1, 6, 12 Rel. Per (%)	-4/-24/-25
12M Avg Val (INR M)	74

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	37.9	43.2	49.5
EBITDA	4.6	5.5	6.3
PAT	3.0	3.5	4.1
EPS (INR)	85	99	115
EPS Gr. (%)	-20.9	15.9	16.7
BV/Sh.(INR)	615	688	773

Ratios

Net D:E	-0.0	-0.1	-0.1
RoE (%)	14.8	15.1	15.7
RoCE (%)	14.1	15.0	15.8
Payout (%)	25.9	25.9	25.9

Valuations

P/E (x)	29.9	25.8	22.1
P/BV (x)	4.1	3.7	3.3
EV/EBITDA (x)	19.3	16.1	13.8
Div. Yield (%)	0.9	1.0	1.2
FCF Yield (%)	4.0	2.5	3.0

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	70.9	70.9	70.9
DII	12.7	12.4	12.7
FII	3.8	3.6	2.9
Others	12.6	13.0	13.5

FII Includes depository receipts

CMP: INR2,542

TP: INR3,450 (+36%)

Buy

Volume and margin guidance remains intact

- Galaxy Surfactants (GALSURF) reported EBITDA/kg of INR16.7 in 4QFY24, down 28% YoY (our estimate of INR22.5). The company achieved a total volume growth of ~5% YoY to 60.8tmt (our est. of 60.4tmt), with healthy volume growth in India and RoW regions. Subsequently, EBITDA stood at INR1b (down 24% YoY), while PAT came in at INR775m (down 14% YoY).
- The management has guided that lead times have increased due to the Red Sea crisis, but it has not affected the demand for its products. The total impact of volumes was 2.5ktpa. GALSURF expects a full revival in volumes in Jun'24. Demand is normalizing in the AMET market and the currency is also stabilizing in Egypt.
- Barring any further escalations in geopolitical issues, the management expects 6-8% volume growth going forward, with EBITDA growth outpacing volume growth and earnings growth exceeding EBITDA growth. Volumes are expected to tilt toward premium specialty products in FY25. EBITDA/kg guidance, including other income, is at INR20.5-21.5 for FY25.
- The outlook for the business remains positive and the structural story remains intact. There has been improvement in accessibility of products due to quick commerce and the headroom for growth in the HPC segment is huge. The management believes that the momentum in the mass and masstige categories will remain intact, with accelerated approvals leading to volume growth.
- We have not made material changes to our estimates as our margin assumption is well within the management guidance. The stock is currently trading at ~22x FY26E EPS of INR115 and ~14x FY26E EV/EBITDA. We value the company at 30x FY26E EPS to arrive at a TP of INR3,450. We reiterate our BUY rating on the stock.

Miss across the board; margins contract YoY

- Revenue stood at INR9.3b (our est. of INR9.6b, -5% YoY).
- EBITDA came in at INR1b (est. of INR1.4b, -24% YoY). Gross margin was 32.6% (-10bp YoY), with EBITDAM at 10.9% (-280bp YoY).
- PAT came in at INR775m (est. of INR869m, -14% YoY).
- During FY24**, revenue was INR37.9b (-15% YoY), EBITDA stood at INR4.6b (-19% YoY), while PAT was at INR3b (-21% YoY). EBITDAM was 12.2% (-60bp YoY).
- The board declared a final dividend of INR22/share for FY24.
- The board has also approved setting up of two overseas subsidiaries in North America/LATAM. GALSURF would be the sole shareholder in the subsidiaries.
- The objective is to promote business interests in the areas of surfactants, specialty ingredients, active, and proteins (including the businesses of investment holding, trading & marketing, distribution, manufacturing, project execution, implementation, etc.).

Operational highlights

- Total volumes in 4Q stood at 60.8tmt (est. of 60.4tmt, up 5% YoY).
- The revenue shares from performance surfactants accounted for 56% of the overall revenue, with the remainder coming from specialty care products.
- The revenue shares from MNCs stood at 49%, regional players at 9% and local & niche players at 42%.
- India accounted for 38% of the overall revenues, while the AMET region contributed 21% and the share from the RoW stood at 41%.
- Implied realization stood at INR152.7/kg (est. of INR158.6, down 10% YoY), with EBITDA/kg at INR16.7 (our est. of INR22.5, down 28% YoY).

Valuation and view

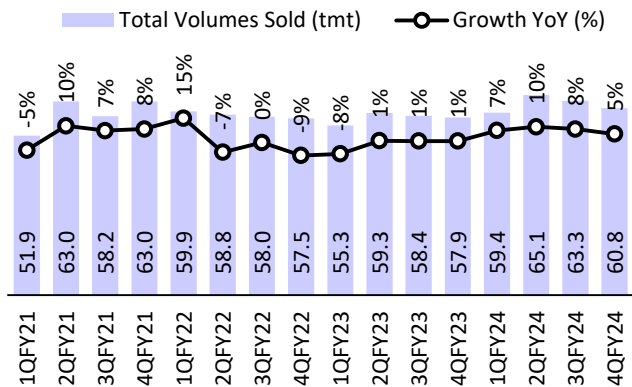
- The continued focus on R&D (with an annual expenditure of INR400-500m) and increased wallet share from its existing customers and acquisition of new customers should drive volume growth. Margin is also expected to expand gradually with a higher share of premium specialty products volume.
- We estimate a volume CAGR of 9% over FY24-26, led by robust volumes in the domestic market and a recovery in specialty care products volumes in the developed markets, which have already started growing.
- The stock is currently trading at ~22x FY26E EPS of INR115 and ~14x FY26E EV/EBITDA. We value the company at 30x FY26E EPS to arrive at a TP of INR3,450. We reiterate our BUY rating on the stock.

Consolidated - Quarterly Snapshot

Y/E March	FY23				FY24				FY23	FY24	FY24	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Gross Sales	11,589	12,365	10,851	9,796	9,418	9,831	9,405	9,290	44,601	37,944	9,575	-3%
YoY Change (%)	40.2	40.9	16.8	-7.0	-18.7	-20.5	-13.3	-5.2	21.0	-14.9	-1.7	
Gross Margin (%)	30.8%	27.2%	31.9%	32.8%	32.4%	31.5%	31.8%	32.6%	30.5%	32.1%	36.8%	-4.1%
EBITDA	1,480	1,317	1,540	1,345	1,232	1,249	1,125	1,017	5,683	4,622	1,356	-25%
Margin (%)	12.8	10.7	14.2	13.7	13.1	12.7	12.0	10.9	12.7	12.2	14.2	-3.2
Depreciation	189	205	216	225	238	247	251	262	835	998	267	
Interest	44	56	56	61	57	54	59	54	217	224	64	
Other Income	-20	11	37	70	25	27	64	239	99	355	57	
PBT	1,227	1,067	1,307	1,129	962	975	878	940	4,729	3,755	1,081	-13%
Tax	223	228	245	224	210	201	165	165	920	740	212	
Rate (%)	18.2	21.4	18.7	19.8	21.8	20.6	18.8	17.5	19.4	19.7	19.6	
Reported PAT	1,004	839	1,062	905	752	774	714	775	3,810	3,015	869	-11%
YoY Change (%)	30.7	100.0	132.7	-8.0	-25.1	-7.7	-32.8	-14.4	45.0	-20.9	-4.0	
Margin (%)	8.7	6.8	9.8	9.2	8.0	7.9	7.6	8.3	8.5	7.9	9.1	-0.7
Total Volumes (tmt)	55.3	59.3	58.4	57.9	59.4	65.1	63.3	60.8	230.8	248.6	60.4	1%
Operating Performance (INR/kg)												
Implied realization (INR/kg)	209.7	208.6	185.9	169.3	158.6	151.0	148.7	152.7	193.3	152.7	158.6	-4%
Gross margin (INR/kg)	64.6	56.7	59.3	55.4	51.4	47.5	47.3	49.8	58.9	48.9	58.3	-15%
EBITDA (INR/kg)	26.8	22.2	26.4	23.2	20.8	19.2	17.8	16.7	24.6	18.6	22.5	-26%

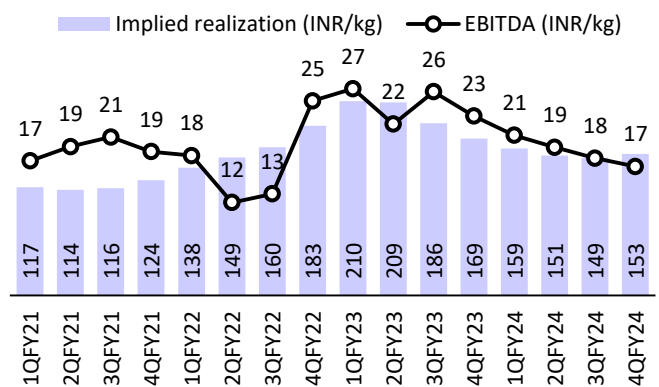
4QFY24 story in charts

Exhibit 1: Total volumes up 5% YoY...



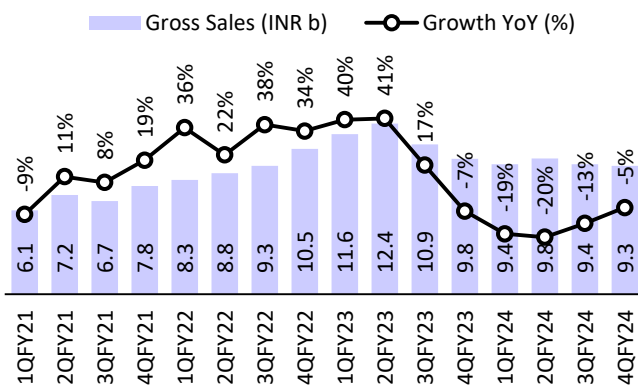
Source: Company, MOFSL

Exhibit 2: ...with EBITDA/kg at INR116.7 (down 28% YoY)



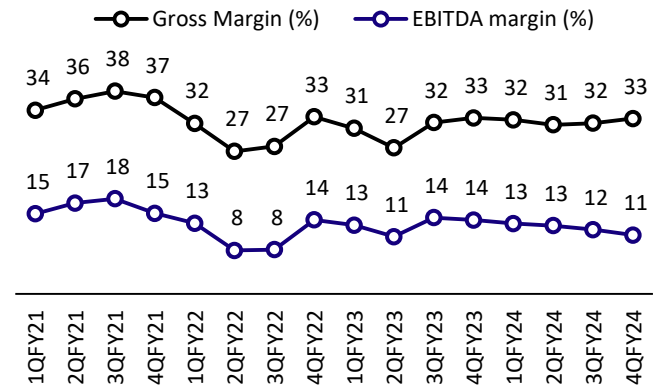
Source: Company, MOFSL

Exhibit 3: Gross sales declined 5% YoY



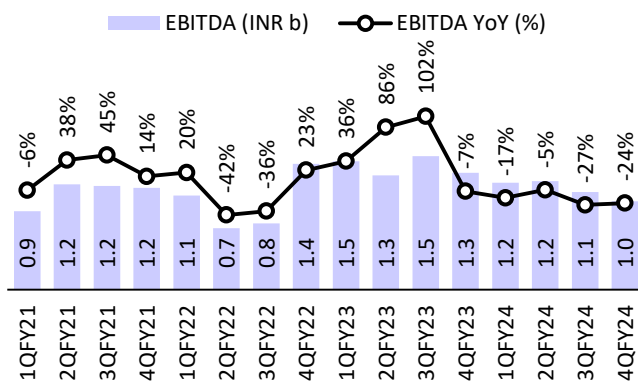
Source: Company, MOFSL

Exhibit 4: Margins declined YoY



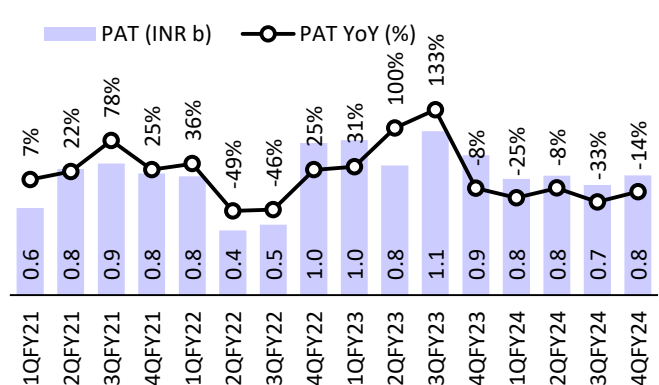
Source: Company, MOFSL

Exhibit 5: EBITDA declined 24% YoY...

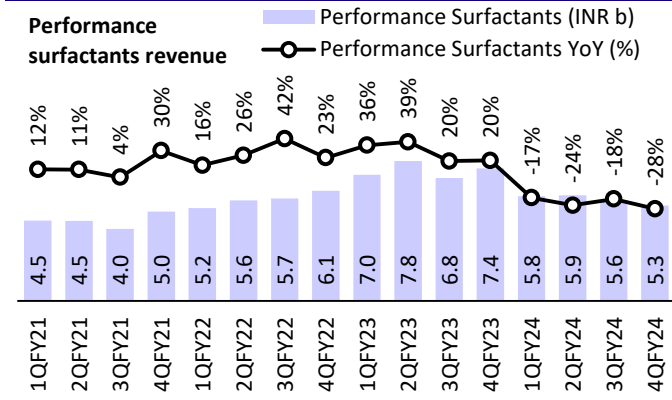


Source: Company, MOFSL

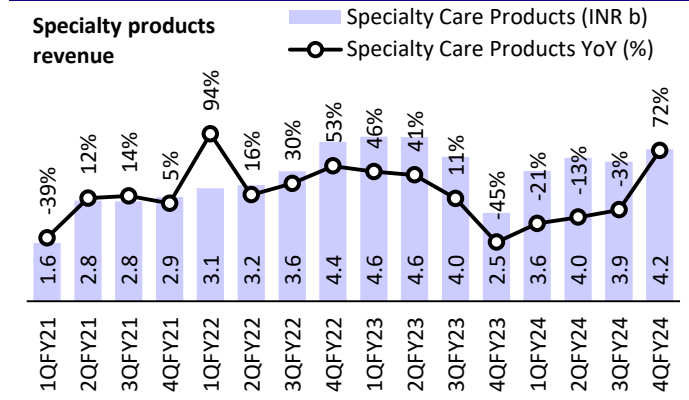
Exhibit 6: ...with PAT also declining 14% YoY



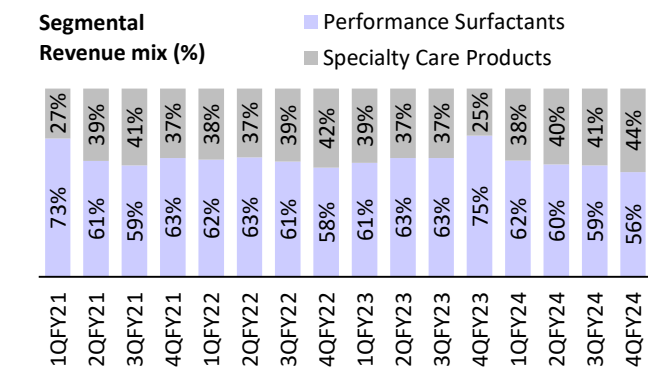
Source: Company, MOFSL

Exhibit 7: Performance surfactants revenue stood at INR5.3b

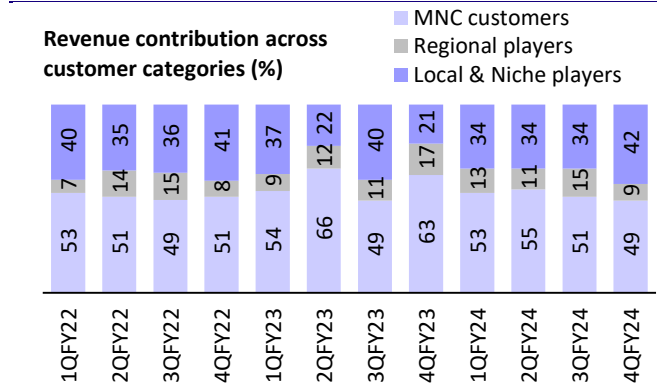
Source: Company, MOFSL

Exhibit 8: Specialty care products revenue stood at INR4.2b

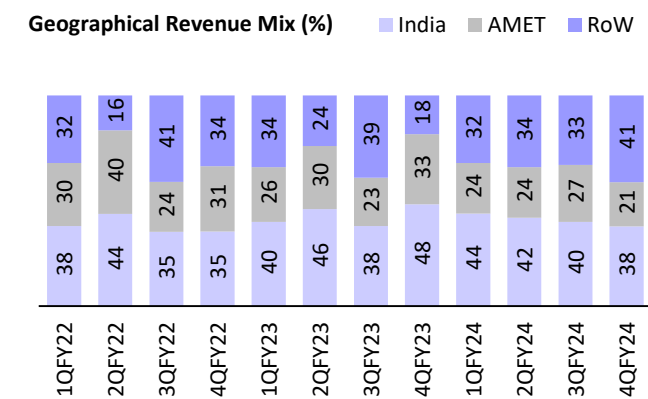
Source: Company, MOFSL

Exhibit 9: Mix of specialty segment increased YoY

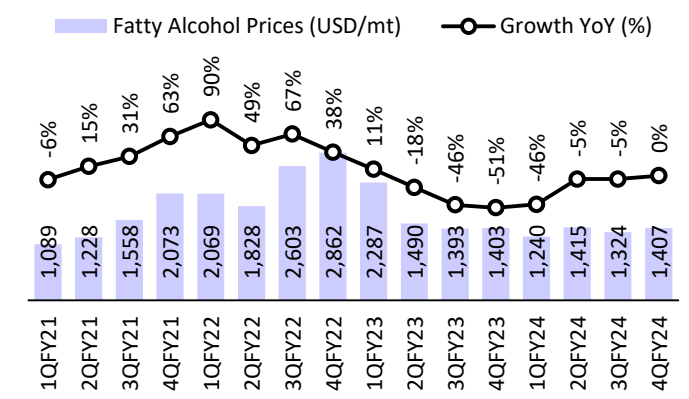
Source: Company, MOFSL

Exhibit 10: Contribution of MNCs and regional players to overall revenues declined YoY

Source: Company, MOFSL

Exhibit 11: Geographical revenue mix YoY improved for RoW

Source: Company, MOFSL

Exhibit 12: Fatty alcohol price was flat YoY

Source: Company, MOFSL

Management concall highlights

■ Long-term outlook

- Remains extremely positive
- Growth in volumes 1.5x, EBITDA by 2x and earnings 3x since FY16
- Structural story remains intact
- Improvement in accessibility via quick commerce; there is a huge headroom for growth in HPC industry
- Product innovation at the core of business

■ Medium-term outlook

- FY20-23 saw low single digit growth in volumes
 - ✓ EBITDA/mt improved significantly, but was unsustainable
 - ✓ Strong demand; stocking inventories on customers' end was the theme
 - ✓ Supply-led gaps affected customer services
- FY24 started with inventory glut
 - ✓ Inflation had begun to cool off from 2HCY22, but volumes stabilized only in 2HCY23
 - ✓ Strong pickup in masstige products in start of FY24
 - ✓ Red Sea issue did not impact demand in a major way
 - ✓ Destocking cycle is over and 1HFY25 would see stabilization
 - Restocking to begin in 2HFY25
 - Momentum of mass and masstige to remain
 - Accelerated approvals to ensure volume growth

■ Performance for FY24 and guidance for FY25

- Barring any further geopolitical issues, AMET should see strong revival in volumes
- Volumes to tilt toward premium specialty products in FY25
- EBITDA/kg guidance of INR20.5-21.5 for FY25, 1H should be toward the lower range, while 2H would be toward the higher range
- Volume growth in FY24 because of new customers and increase in wallet share from existing customers as well
- Full revival of volumes because of Red Sea issue is expected in Jun'24
- Impact to the tune of 2.5ktpa in terms of volumes
- Good normalization in terms of demand being seen right now in AMET market
- Lead times are elongated right now due to Red Sea issue
- Currency in Egypt has also normalized
- 25% volumes growth in specialty products and performance volumes declined 5% YoY in 4Q
- Volumes growth YoY across regions in 4Q: India +4%, AMET -12.5%, RoW +32%
- Performance surfactants volumes grew by 11% in FY24
- Some new molecules in pipeline are at the last stage of commercialization
- The company would keep rejigging its portfolio keeping in mind consumer demand and preferences

Story in charts

Exhibit 13: Specialty products share to increase going forward...

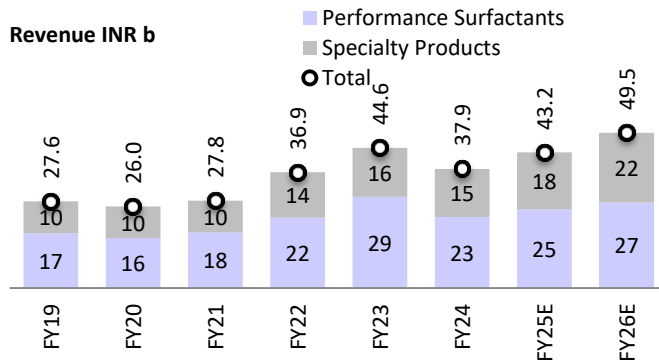


Exhibit 14: ...with performance products share at 55%

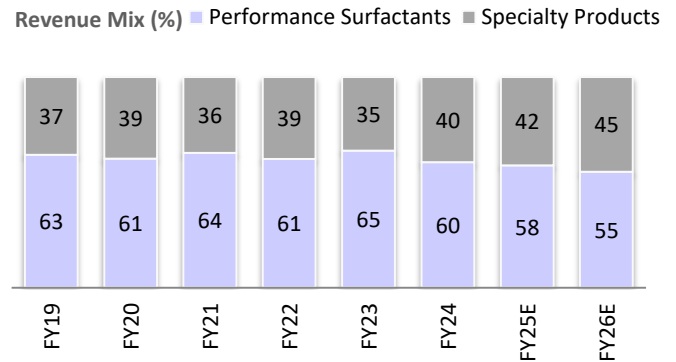


Exhibit 15: Volume CAGR of 9% expected over FY24-26...

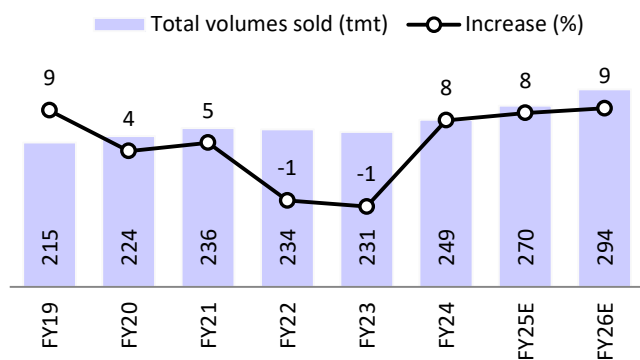


Exhibit 16: ...with higher EBITDA/kg

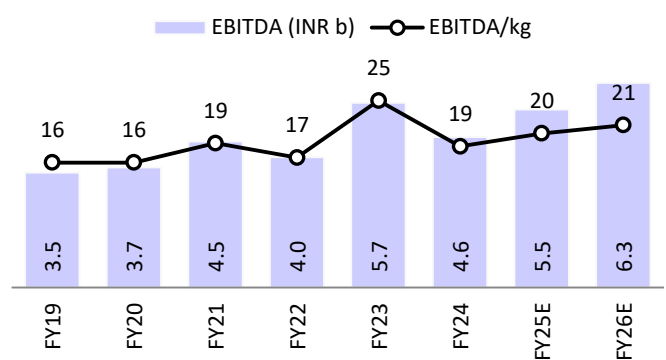


Exhibit 17: Expect PAT margin to remain stable

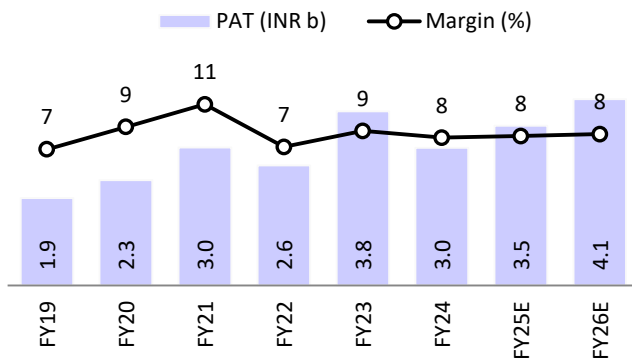


Exhibit 18: GALSURF is likely to generate an FCF of INR4.9b over FY25-26

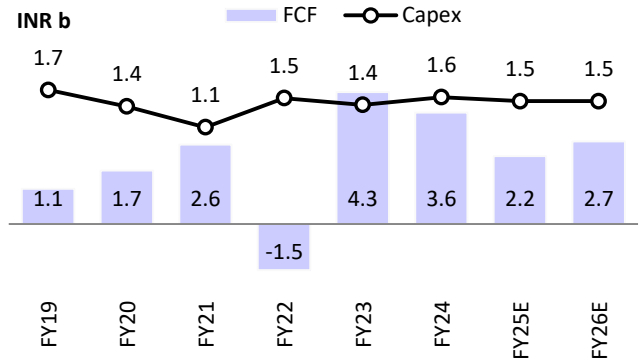


Exhibit 19: Return ratios to improve going forward

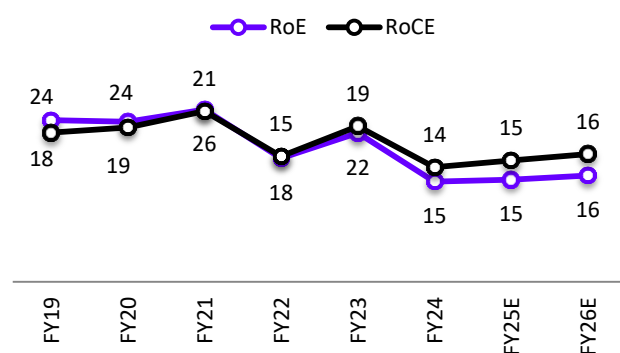
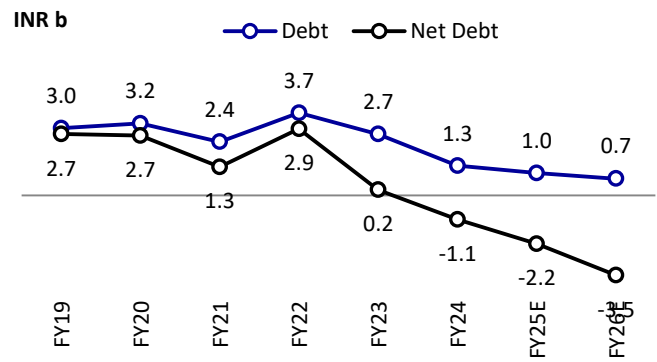


Exhibit 20: Debt profile of GALSURF



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	27,630	25,964	27,841	36,857	44,640	37,944	43,222	49,463
Change (%)	12.2	-6.0	7.2	32.4	21.1	-15.0	13.9	14.4
Gross Margin (%)	29.5	33.9	36.3	29.8	30.6	32.1	32.6	32.9
EBITDA	3,534	3,689	4,488	4,007	5,683	4,622	5,474	6,289
Margin (%)	12.8	14.2	16.1	10.9	12.7	12.2	12.7	12.7
Depreciation	512	622	740	711	835	998	1,043	1,125
EBIT	3,022	3,067	3,749	3,297	4,848	3,624	4,431	5,164
Int. and Finance Charges	300	238	134	129	217	224	230	238
Other Income	47	59	109	125	99	355	177	184
PBT bef. EO Exp.	2,769	2,888	3,723	3,293	4,730	3,755	4,378	5,110
PBT after EO Exp.	2,769	2,888	3,723	3,293	4,730	3,755	4,378	5,110
Total Tax	859	584	702	665	920	740	884	1,032
Tax Rate (%)	31.0	20.2	18.8	20.2	19.4	19.7	20.2	20.2
Reported PAT	1,910	2,304	3,021	2,628	3,810	3,015	3,493	4,077
Adjusted PAT	1,910	2,304	3,021	2,628	3,810	3,015	3,493	4,077
Change (%)	20.9	20.6	31.1	-13.0	45.0	-20.9	15.9	16.7
Margin (%)	6.9	8.9	10.9	7.1	8.5	7.9	8.1	8.2

Consolidated - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	355	355	355	355	355	355	355	355
Total Reserves	8,413	10,323	12,660	15,389	18,471	21,438	24,028	27,050
Net Worth	8,767	10,678	13,014	15,744	18,826	21,793	24,382	27,405
Total Loans	2,978	3,196	2,374	3,660	2,718	1,317	987	741
Deferred Tax Liabilities	320	241	233	249	283	297	297	297
Capital Employed	12,065	14,115	15,621	19,652	21,827	23,406	25,666	28,442
Gross Block	9,722	11,525	11,945	12,828	16,721	18,214	19,714	21,214
Less: Accum. Deprn.	4,609	5,231	5,971	6,681	7,516	8,514	9,557	10,683
Net Fixed Assets	5,112	6,294	5,974	6,146	9,205	9,699	10,156	10,531
Goodwill on Consolidation	25	28	27	28	30	30	30	30
Capital WIP	826	660	1,240	2,055	1,392	1,585	1,585	1,585
Total Investments	0	58	435	5	0	1,980	1,980	1,980
Curr. Assets, Loans&Adv.	9,717	11,081	12,821	17,772	16,717	15,852	18,426	21,764
Inventory	3,513	3,250	4,278	7,118	6,458	5,561	6,299	7,205
Account Receivables	4,268	4,394	4,689	6,380	6,148	5,931	6,756	7,731
Cash and Bank Balance	257	542	1,114	711	2,476	2,393	3,142	4,290
Cash	250	477	815	638	2,319	2,205	2,953	4,102
Bank balance	7	65	299	74	157	188	188	188
Loans and Advances	1,680	2,894	2,740	3,563	1,635	1,968	2,229	2,538
Curr. Liability & Prov.	3,615	4,005	4,874	6,353	5,518	5,742	6,512	7,449
Account Payables	3,059	2,731	3,770	5,189	4,302	4,461	5,054	5,780
Other Current Liabilities	416	1,098	918	1,011	1,094	1,145	1,304	1,492
Provisions	140	176	186	153	122	136	154	177
Net Current Assets	6,102	7,075	7,947	11,419	11,200	10,110	11,914	14,315
Appl. of Funds	12,065	14,115	15,621	19,652	21,827	23,406	25,666	28,442

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	53.9	65.0	85.2	74.1	107.5	85.0	98.5	115.0
EPS Growth (%)	20.9	20.6	31.1	-13.0	45.0	-20.9	15.9	16.7
Cash EPS	68.3	82.5	106.1	94.2	131.0	113.2	128.0	146.8
BV/Share	247.3	301.2	367.1	444.1	531.0	614.7	687.8	773.0
DPS	12.0	17.0	18.0	18.0	22.0	22.0	25.5	29.8
Payout (%)	26.9	31.5	21.1	24.3	20.5	25.9	25.9	25.9
Valuation (x)								
P/E	47.2	39.1	29.8	34.3	23.7	29.9	25.8	22.1
Cash P/E	37.2	30.8	24.0	27.0	19.4	22.5	19.9	17.3
P/BV	10.3	8.4	6.9	5.7	4.8	4.1	3.7	3.3
EV/Sales	3.4	3.6	3.3	2.5	2.0	2.3	2.0	1.8
EV/EBITDA	26.3	25.1	20.4	23.2	15.9	19.3	16.1	13.8
Dividend Yield (%)	0.5	0.7	0.7	0.7	0.9	0.9	1.0	1.2
FCF per share	32.4	49.2	72.7	-42.3	121.0	102.2	62.4	75.8
Return Ratios (%)								
RoE	23.9	23.7	25.5	18.3	22.0	14.8	15.1	15.7
RoCE	18.4	19.1	21.1	15.5	19.2	14.1	15.0	15.8
RoIC	19.5	20.5	23.7	17.7	22.4	16.4	19.4	20.8
Working Capital Ratios								
Fixed Asset Turnover (x)	5.8	4.6	4.5	6.1	5.8	4.0	4.4	4.8
Asset Turnover (x)	2.3	1.8	1.8	1.9	2.0	1.6	1.7	1.7
Inventory (Days)	46	46	56	70	53	53	53	53
Debtor (Days)	56	62	61	63	50	57	57	57
Creditor (Days)	40	38	49	51	35	43	43	43
Leverage Ratio (x)								
Current Ratio	2.7	2.8	2.6	2.8	3.0	2.8	2.8	2.9
Interest Cover Ratio	10.1	12.9	27.9	25.7	22.3	16.2	19.2	21.7
Net Debt/Equity	0.3	0.2	0.1	0.2	0.0	0.0	-0.1	-0.1

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
(INR m)								
OP/(Loss) before Tax	2,769	2,888	3,723	3,293	4,730	3,755	4,378	5,110
Depreciation	512	622	740	711	835	998	1,043	1,125
Others	288	220	79	90	214	102	230	238
Direct Taxes Paid	-750	-686	-706	-594	-953	-781	-884	-1,032
(Inc)/Dec in WC	11	113	-186	-3,450	903	1,110	-1,055	-1,253
CF from Operations	2,830	3,157	3,651	49	5,729	5,185	3,712	4,187
Capex	-1,680	-1,414	-1,073	-1,547	-1,439	-1,563	-1,500	-1,500
Free Cash Flow	1,150	1,744	2,578	-1,498	4,291	3,622	2,212	2,687
CF from Investments	-1,673	-1,511	-1,647	-841	-1,486	-3,439	-1,500	-1,500
Inc/(Dec) in Debt	-623	562	-951	941	-1,039	-1,404	-329	-247
Interest Paid	-272	-226	-152	-131	-241	-235	-230	-238
Dividend Paid	-298	-940	-495	-142	-1,275	-143	-904	-1,055
CF from Fin. Activity	-1,192	-1,434	-1,650	592	-2,643	-1,889	-1,463	-1,539
Inc/Dec of Cash	-36	212	354	-201	1,601	-143	749	1,148
Opening Balance	271	250	477	815	638	2,319	2,205	2,953
Closing Balance	251	477	815	637	2,318	2,205	2,953	4,102

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Explanation of Investment Rating	
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UNDER REVIEW	Rating may undergo a change
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