

Galaxy Surfactants

Estimate changes

TP change

Rating change



Bloomberg	GALSURF IN
Equity Shares (m)	35
M.Cap.(INRb)/(USDb)	92.2 / 1.1
52-Week Range (INR)	2989 / 2218
1, 6, 12 Rel. Per (%)	-8/-16/-15
12M Avg Val (INR M)	68

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
Sales	38.4	43.8	50.1
EBITDA	5.0	5.7	6.5
PAT	3.2	3.7	4.3
EPS (INR)	89.6	103.6	121.0
EPS Gr. (%)	-16.6	15.5	16.9
BV/Sh.(INR)	602.3	684.7	781.0

Ratios

Net D:E	-0.1	-0.2	-0.2
RoE (%)	15.8	16.1	16.5
RoCE (%)	15.0	15.9	16.5
Payout (%)	20.5	20.5	20.5

Valuations

P/E (x)	29.3	25.4	21.7
P/BV (x)	4.4	3.8	3.4
EV/EBITDA (x)	17.8	15.6	13.5
Div. Yield (%)	0.7	0.8	0.9
FCF Yield (%)	4.6	2.4	2.8

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	70.9	70.9	70.9
DII	12.4	12.6	12.7
FII	3.6	3.1	2.8
Others	13.0	13.4	13.6

FII Includes depository receipts

CMP: INR2,601 TP: INR3,500 (+35%)

Buy

One-offs and Red Sea challenges hurt margins

- Galaxy Surfactants (GALSURF) reported EBITDA/kg of INR17.8, down 33% YoY (our estimate of INR21.2). The company achieved a total volume growth of ~8% YoY to 63.3tmt (our est. of 62.9tmt) with volume momentum sustaining in India and AMET regions. Subsequently, EBITDA stood at INR1.1b (down 27% YoY), while PAT came in at INR714m (down 33% YoY).
- The quarterly volumes were adversely impacted by the Red Sea escalations, because of which some orders have shifted to 4QFY24. Further escalations of the Red Sea issue remain one of the biggest threats as of now. Freight costs and lead times have gone higher than usual, which may in turn lead to slower-than-expected recovery in North America.
- The management highlighted that inflation remains a concern, although there have been positive developments, such as decreasing commodity prices in Egypt and a decline in food inflation. Additionally, demand in North America, which was affected by destocking, appears to have reached its lowest point. GALSURF is showing signs of recovery with new demand emerging, and the company receiving new orders.
- Management is confident of achieving volume growth in the guided range of 6-8% in FY24 with both Performance Surfactants and Specialty Care Products doing well in 9MFY24. EBITDA/kg guidance remains at INR19.5-20.5 for FY24, however, the company will re-look at the margin guidance in 1QFY25. We remain confident on the long-term growth trajectory of the company.
- The stock is currently trading at ~25x FY25E EPS of INR103.6 and ~16x FY25E EV/EBITDA. We value the company at 30x Dec'25E EPS to arrive at a TP of INR3,500. We reiterate our BUY rating on the stock.

Miss on EBITDA; margin declines

- Revenue stood at INR9.4b (our est. of INR9.7b, down 13% YoY)
- EBITDA came in at INR1.1b (est. of INR1.3b, down 27% YoY). Gross margin stood at 31.8% (down 10bp YoY), with EBITDAM at 12% (down 220bp YoY).
- PAT came in at INR714m (est. of INR860m, down 33% YoY).
- For 9MFY24, revenue stood at INR28.7b (down 18% YoY); EBITDA stood at INR3.6b (down 17% YoY), while PAT at INR2.2b (down 23% YoY). EBITDAM stood at 12.6% (up 10bp YoY).

Operational highlights

- Total volumes in 3Q stood at 63.3tmt (est. of 62.9tmt, up 8% YoY).
- The revenue share from performance surfactants accounted for 59% of the overall revenue, with the remainder coming from Specialty Care Products.
- The revenue share from MNCs stood at 51%, with the same from regional players at 15% and from Local & Niche players at 34%.
- India accounted for 40% of the overall revenues, while the AMET region contributed 27% and the share from the RoW stood at 33%
- Implied realization stood at INR148.7/kg (est. of INR154, down 20% YoY) with EBITDA/kg at INR17.8 (our est. of INR21.2, down 33% YoY).

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Valuation and view

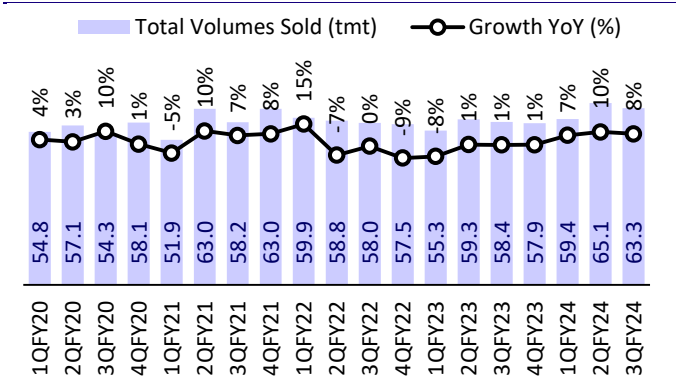
- The continued focus on R&D (with an annual expenditure of INR400-500m) and increased wallet share from its existing customers should drive volume growth. Margin is also expected to expand gradually.
- We estimate a volume CAGR of 9% over FY23-26, led by robust volumes in the domestic market and a recovery in the volumes of Specialty Care Products in developed markets, which are already displaying signs of growth.
- The stock is currently trading at ~25x FY25E EPS of INR103.6 and ~16x FY25E EV/EBITDA. We value the company at 30x Dec'25E EPS to arrive at a TP of INR3,500. We reiterate our BUY rating on the stock.

Consolidated - Quarterly Snapshot**(INR m)**

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		3QE		
Gross Sales	11,589	12,365	10,851	9,745	9,418	9,831	9,405	9,753	44,549	38,407	9,691	-3%
YoY Change (%)	40.2	40.9	16.8	-7.5	-18.7	-20.5	-13.3	0.1	20.9	-13.8	-10.3	
Gross Margin (%)	30.8%	27.2%	31.9%	32.4%	32.4%	31.5%	31.8%	34.1%	30.4%	32.4%	32.5%	-0.7%
EBITDA	1,480	1,317	1,540	1,345	1,232	1,249	1,125	1,442	5,682	5,047	1,336	-16%
Margin (%)	12.8	10.7	14.2	13.8	13.1	12.7	12.0	14.8	12.8	13.1	13.8	-1.8
Depreciation	189	205	216	225	238	247	251	267	835	1,003	255	
Interest	44	56	56	61	57	54	59	64	217	234	59	
Other Income	-20	11	37	70	25	27	64	57	99	173	29	
PBT	1,227	1,067	1,307	1,129	962	975	878	1,167	4,729	3,982	1,053	-17%
Tax	223	228	245	224	210	201	165	229	920	805	192	
Rate (%)	18.2	21.4	18.7	19.8	21.8	20.6	18.8	19.6	19.4	20.2	18.3	
Reported PAT	1,004	839	1,062	905	752	774	714	938	3,809	3,178	860	-17%
YoY Change (%)	30.7	100.0	132.7	-8.0	-25.1	-7.7	-32.8	3.6	45.0	-16.6	-19.0	
Margin (%)	8.7	6.8	9.8	9.3	8.0	7.9	7.6	9.6	8.6	8.3	8.9	-1.3
Total Volumes (tmt)	55.3	59.3	58.4	57.9	59.4	65.1	63.3	61.5	230.8	249.2	62.9	1%
Operating Performance (INR/kg)												
Implied realization (INR/kg)	209.7	208.6	185.9	168.4	158.6	151.0	148.7	158.5	193.0	154.1	154.0	-3%
Gross margin (INR/kg)	64.6	56.7	59.3	54.6	51.4	47.5	47.3	54.1	58.7	50.0	50.0	-6%
EBITDA (INR/kg)	26.8	22.2	26.4	23.2	20.8	19.2	17.8	23.4	24.6	20.3	21.2	-16%

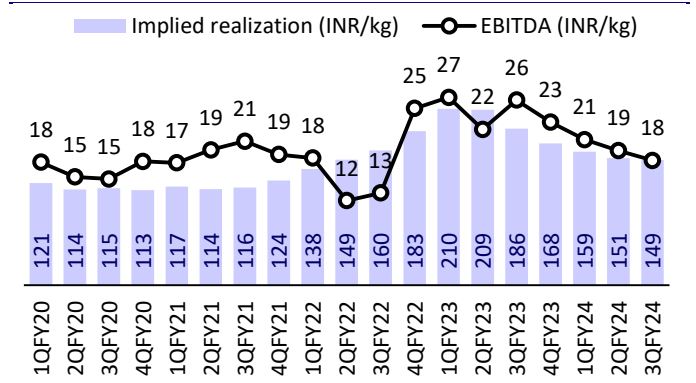
3QFY24 story in charts

Exhibit 1: Total volumes up 8% YoY...



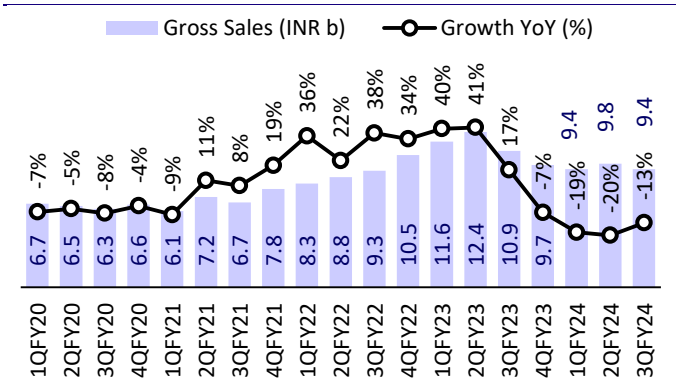
Source: Company, MOFSL

Exhibit 2: ...with EBITDA/kg at INR17.8 (down 33% YoY)



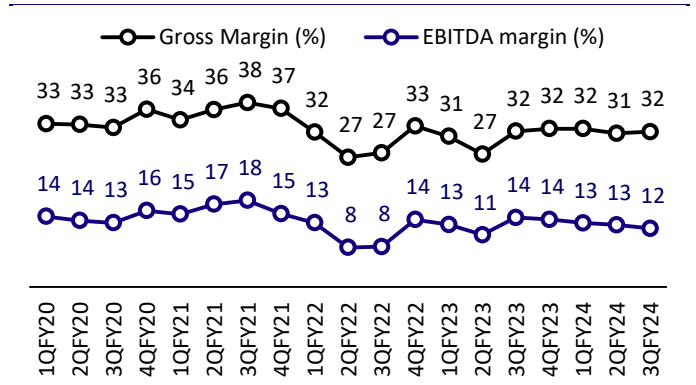
Source: Company, MOFSL

Exhibit 3: Gross sales declined 13% YoY



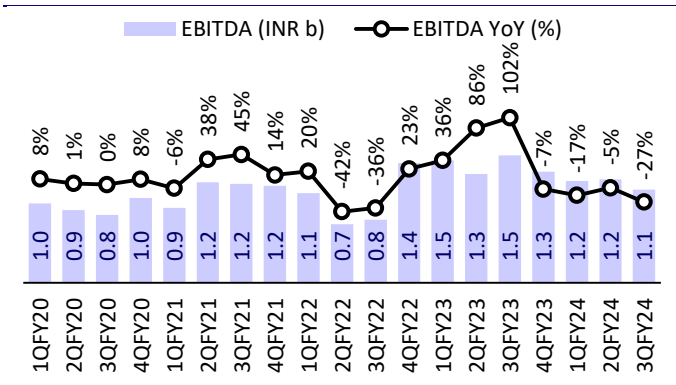
Source: Company, MOFSL

Exhibit 4: Margins declined YoY



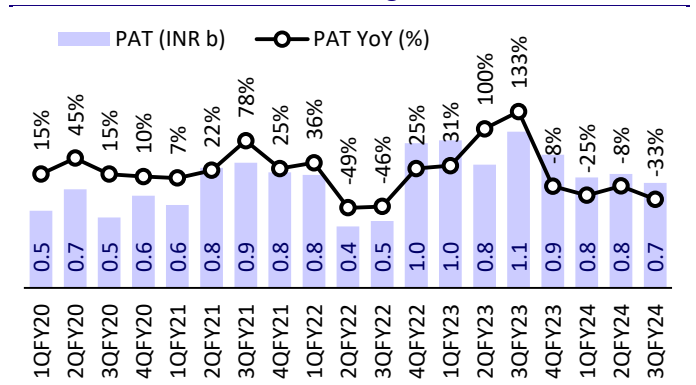
Source: Company, MOFSL

Exhibit 5: EBITDA declined 27% YoY...



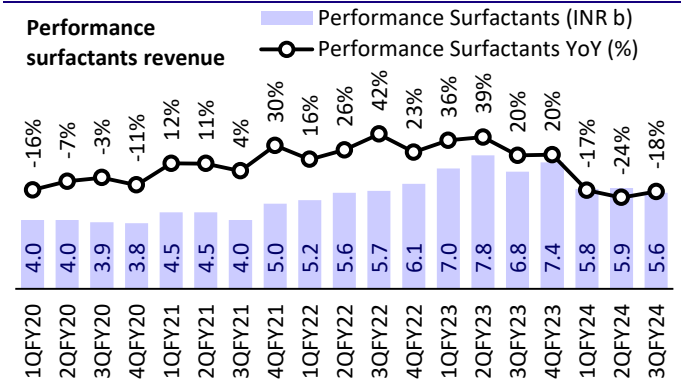
Source: Company, MOFSL

Exhibit 6: ...with PAT also declining 33% YoY



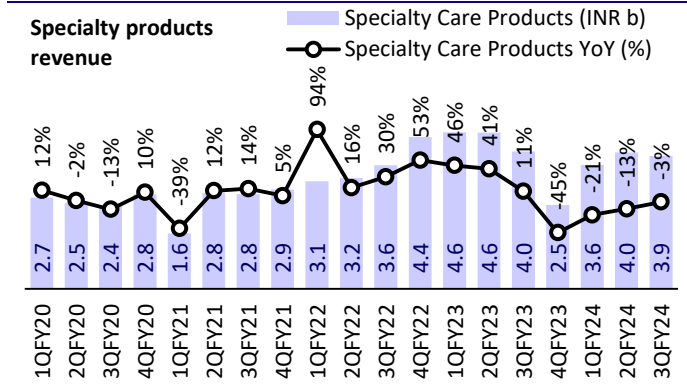
Source: Company, MOFSL

Exhibit 7: Performance surfactants revenue stood at INR5.6b



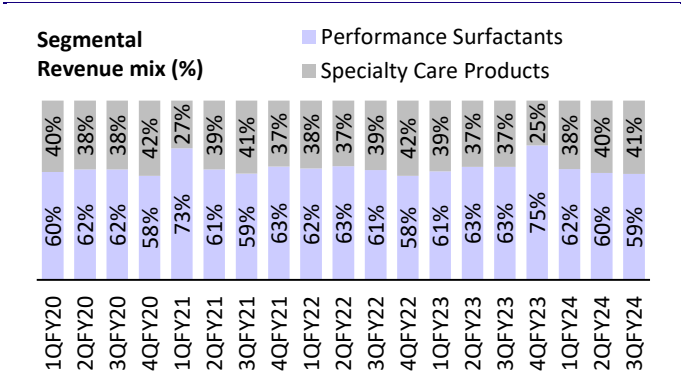
Source: Company, MOFSL

Exhibit 8: Specialty Care products revenue stood at INR3.9b



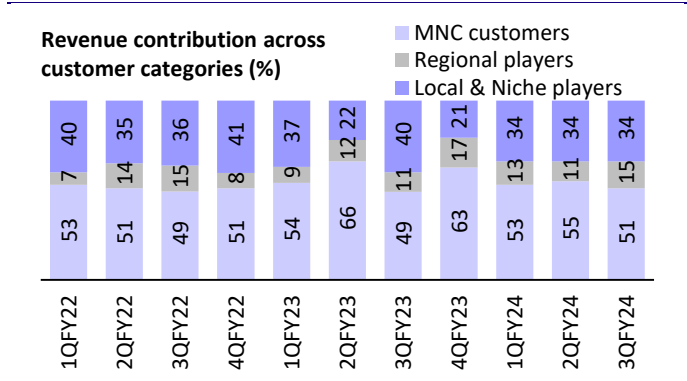
Source: Company, MOFSL

Exhibit 9: Mix of Specialty segment increased YoY



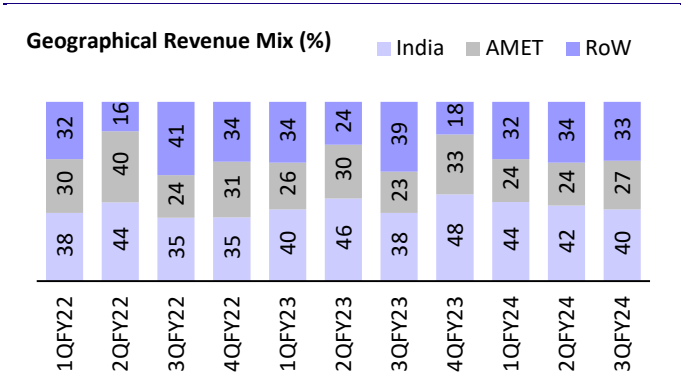
Source: Company, MOFSL

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



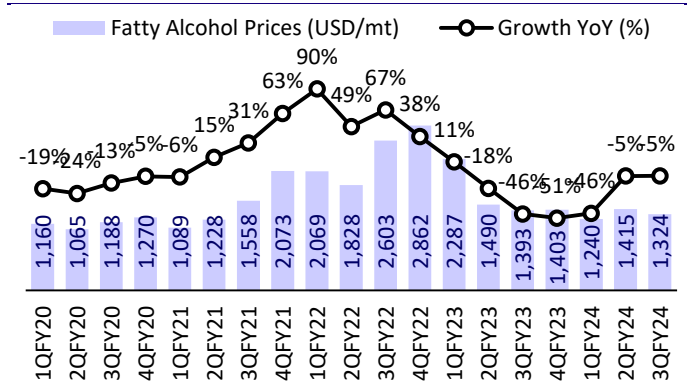
Source: Company, MOFSL

Exhibit 11: Geographical revenue mix improved for India and AMET regions YoY



Source: Company, MOFSL

Exhibit 12: Fatty Alcohol prices declined 5% YoY



Source: Company, MOFSL

Management concall highlights

- The receding effects of inflation and emerging signs of demand recovery would be key going forward
- The second half of December was dampened by challenges in the Red Sea region, leading to a spill-over of volumes into 4Q
- An increase in freight costs and lead time could have an adverse impact on the company's volumes
- India continues to be the bright spot although rural demand remains muted
- AMET region has grown at 2.3% for 9MFY24
- The RoW region has registered a 7% volume growth in 9MFY24
- Both Performance Surfactants and Specialty segments have done well in 9MFY24
- There was an EBITDA impact of INR 70m due to higher freight costs resulting from the ongoing challenges in the Red Sea region
 - Excluding this, the EBITDA/kg would have been within the guided range of the management
- Export incentives were only accounted for in cash, with INR 210m received for 3QFY23, but none for 3QFY24.
- Commodity prices in Egypt have begun to decrease. The management anticipates a positive trajectory for Egypt in the future.
- In North America, destocking has probably bottomed out and new demand and orders are being seen
 - Seeing signs of revival in North America
- 9MFY24 capex of INR900m and full-year guidance remains the same
- Average capacity utilization stands at 70% currently
- Overall export on consol revenues is 65% and 35% is domestic sales

Story in charts

Exhibit 13: Steady market share of Specialty products...

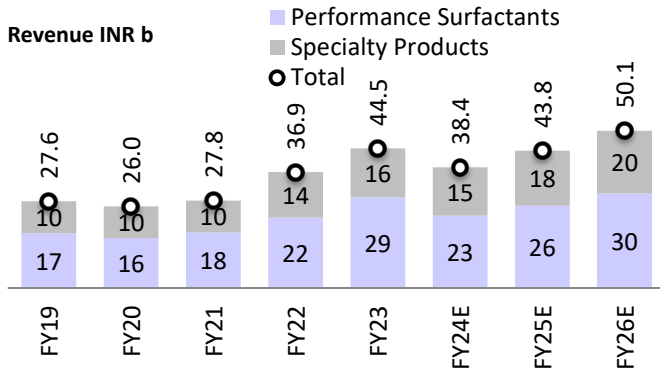


Exhibit 14: ...with Performance products share at 60%

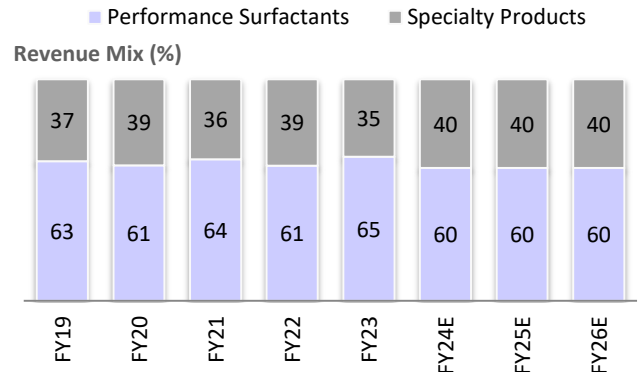


Exhibit 15: Volume CAGR of 9% expected over FY23-26

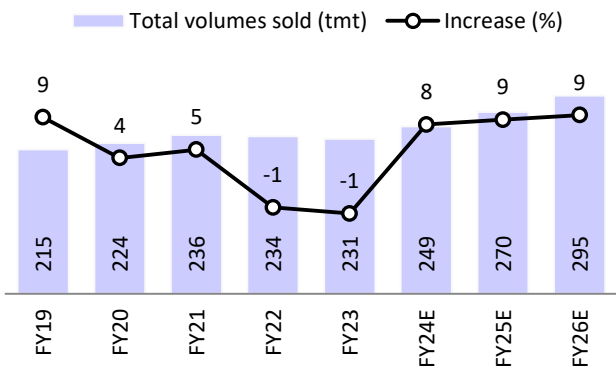


Exhibit 16: With higher EBITDA/kg

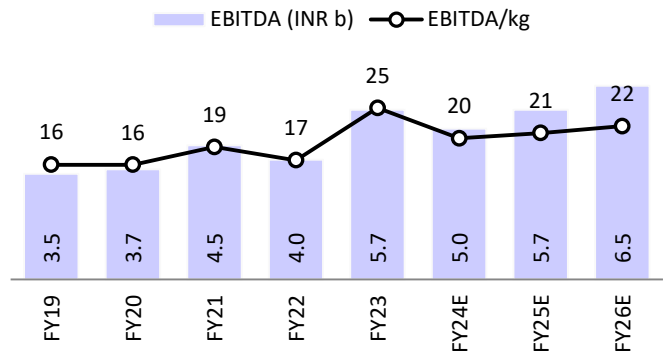


Exhibit 17: Expect PAT margin to remain stable

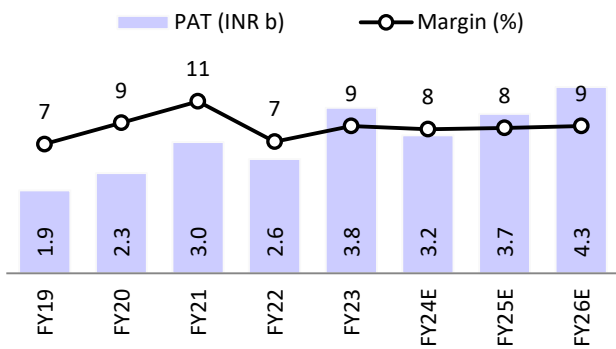


Exhibit 18: GALSURF is likely to generate an FCF of INR9.2b over FY24-26

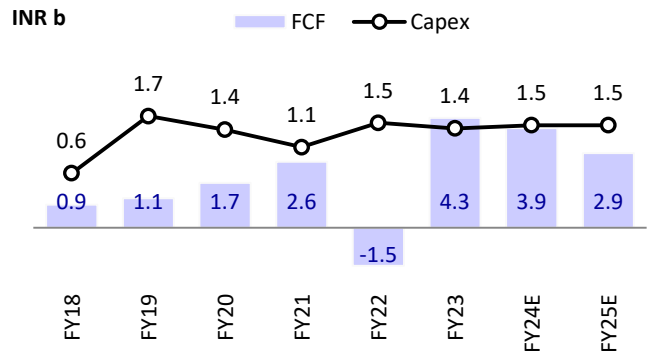


Exhibit 19: Return ratios to improve going forward

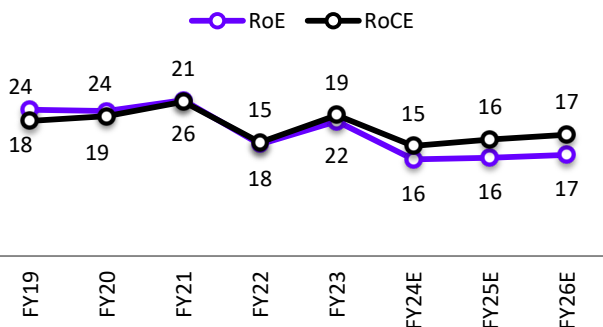
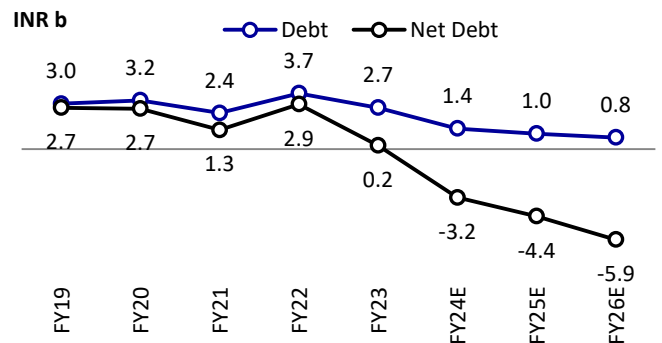


Exhibit 20: Debt profile of GALSURF



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	27,630	25,964	27,841	36,857	44,452	38,407	43,756	50,080
Change (%)	12.2	-6.0	7.2	32.4	20.6	-13.6	13.9	14.5
Gross Margin (%)	29.5	33.9	36.3	29.8	30.3	32.4	32.8	33.0
EBITDA	3,534	3,689	4,488	4,007	5,683	5,047	5,679	6,485
Margin (%)	12.8	14.2	16.1	10.9	12.8	13.1	13.0	12.9
Depreciation	512	622	740	711	835	1,003	1,020	1,048
EBIT	3,022	3,067	3,749	3,297	4,848	4,044	4,659	5,438
Int. and Finance Charges	300	238	134	129	217	234	238	245
Other Income	47	59	109	125	99	173	179	185
PBT bef. EO Exp.	2,769	2,888	3,723	3,293	4,730	3,982	4,601	5,378
PBT after EO Exp.	2,769	2,888	3,723	3,293	4,730	3,982	4,601	5,378
Total Tax	859	584	702	665	920	805	930	1,086
Tax Rate (%)	31.0	20.2	18.8	20.2	19.4	20.2	20.2	20.2
Reported PAT	1,910	2,304	3,021	2,628	3,810	3,178	3,672	4,291
Adjusted PAT	1,910	2,304	3,021	2,628	3,810	3,178	3,672	4,291
Change (%)	20.9	20.6	31.1	-13.0	45.0	-16.6	15.5	16.9
Margin (%)	6.9	8.9	10.9	7.1	8.6	8.3	8.4	8.6

Consolidated - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	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	20,998	23,918	27,331
Net Worth	8,767	10,678	13,014	15,744	18,826	21,353	24,273	27,685
Total Loans	2,978	3,196	2,374	3,660	2,718	1,359	1,019	764
Deferred Tax Liabilities	320	241	233	249	283	283	283	283
Capital Employed	12,065	14,115	15,621	19,652	21,827	22,995	25,575	28,733
Gross Block	9,722	11,525	11,945	12,828	15,302	16,802	18,302	19,802
Less: Accum. Deprn.	4,609	5,231	5,971	6,681	7,516	8,519	9,539	10,587
Net Fixed Assets	5,112	6,294	5,974	6,146	7,786	8,282	8,763	9,215
Goodwill on Consolidation	25	28	27	28	30	30	30	30
Capital WIP	826	660	1,240	2,055	1,392	1,392	1,392	1,392
Total Investments	0	58	435	5	0	0	0	0
Curr. Assets, Loans&Adv.	9,717	11,081	12,821	17,772	18,137	18,043	20,813	24,304
Inventory	3,513	3,250	4,278	7,118	6,458	5,557	6,343	7,262
Account Receivables	4,268	4,394	4,689	6,380	6,148	5,312	6,052	6,926
Cash and Bank Balance	257	542	1,114	711	2,476	4,525	5,410	6,682
Cash	250	477	815	638	2,319	4,368	5,253	6,525
Bank balance	7	65	299	74	157	157	157	157
Loans and Advances	1,680	2,894	2,740	3,563	3,055	2,649	3,009	3,434
Curr. Liability & Prov.	3,615	4,005	4,874	6,353	5,518	4,752	5,422	6,207
Account Payables	3,059	2,731	3,770	5,189	4,302	3,702	4,225	4,837
Other Current Liabilities	416	1,098	918	1,011	1,082	934	1,065	1,218
Provisions	140	176	186	153	134	116	132	151
Net Current Assets	6,102	7,075	7,947	11,419	12,620	13,291	15,391	18,097
Appl. of Funds	12,065	14,115	15,621	19,652	21,827	22,995	25,575	28,733

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	53.9	65.0	85.2	74.1	107.5	89.6	103.6	121.0
EPS Growth (%)	20.9	20.6	31.1	-13.0	45.0	-16.6	15.5	16.9
Cash EPS	68.3	82.5	106.1	94.2	131.0	117.9	132.3	150.6
BV/Share	247.3	301.2	367.1	444.1	531.0	602.3	684.7	781.0
DPS	12.0	17.0	18.0	18.0	22.0	18.4	21.2	24.8
Payout (%)	26.9	31.5	21.1	24.3	20.5	20.5	20.5	20.5
Valuation (x)								
P/E	48.7	40.3	30.8	35.4	24.4	29.2	25.3	21.7
Cash P/E	38.4	31.8	24.7	27.8	20.0	22.2	19.8	17.4
P/BV	10.6	8.7	7.1	5.9	4.9	4.4	3.8	3.4
EV/Sales	3.5	3.7	3.4	2.6	2.1	2.3	2.0	1.7
EV/EBITDA	27.1	25.9	21.0	23.9	16.4	17.8	15.6	13.4
Dividend Yield (%)	0.5	0.6	0.7	0.7	0.8	0.7	0.8	0.9
FCF per share	32.4	49.2	72.7	-42.3	121.0	121.1	62.4	74.8
Return Ratios (%)								
RoE	23.9	23.7	25.5	18.3	22.0	15.8	16.1	16.5
RoCE	18.4	19.1	21.1	15.5	19.2	15.0	15.9	16.5
RoIC	19.5	20.5	23.7	17.7	22.4	18.4	20.7	22.0
Working Capital Ratios								
Fixed Asset Turnover (x)	5.8	4.6	4.5	6.1	6.4	4.8	5.1	5.6
Asset Turnover (x)	2.3	1.8	1.8	1.9	2.0	1.7	1.7	1.7
Inventory (Days)	46	46	56	70	53	53	53	53
Debtor (Days)	56	62	61	63	50	50	50	50
Creditor (Days)	40	38	49	51	35	35	35	35
Leverage Ratio (x)								
Current Ratio	2.7	2.8	2.6	2.8	3.3	3.8	3.8	3.9
Interest Cover Ratio	10.1	12.9	27.9	25.7	22.3	17.3	19.6	22.2
Net Debt/Equity	0.3	0.2	0.1	0.2	0.0	-0.1	-0.2	-0.2

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
(INR m)								
OP/(Loss) before Tax	2,769	2,888	3,723	3,293	4,730	3,982	4,601	5,378
Depreciation	512	622	740	711	835	1,003	1,020	1,048
Others	288	220	79	90	214	234	238	245
Direct Taxes Paid	-750	-686	-706	-594	-953	-805	-930	-1,086
(Inc)/Dec in WC	11	113	-186	-3,450	903	1,378	-1,215	-1,434
CF from Operations	2,830	3,157	3,651	49	5,729	5,794	3,714	4,150
Capex	-1,680	-1,414	-1,073	-1,547	-1,439	-1,500	-1,500	-1,500
Free Cash Flow	1,150	1,744	2,578	-1,498	4,291	4,294	2,214	2,650
CF from Investments	-1,673	-1,511	-1,647	-841	-1,486	-1,500	-1,500	-1,500
Inc/(Dec) in Debt	-623	562	-951	941	-1,039	-1,359	-340	-255
Interest Paid	-272	-226	-152	-131	-241	-234	-238	-245
Dividend Paid	-298	-940	-495	-142	-1,275	-651	-752	-878
CF from Fin. Activity	-1,192	-1,434	-1,650	592	-2,643	-2,244	-1,329	-1,379
Inc/Dec of Cash	-36	212	354	-201	1,601	2,050	884	1,272
Opening Balance	271	250	477	815	637	2,318	4,368	5,252
Closing Balance	251	477	815	637	2,318	4,368	5,252	6,524

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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