

Galaxy Surfactants (GALSURF)

Chemicals | Company Update

BUY

CMP: Rs2,405 | Target Price (TP): Rs3,300 | Upside: 37%

March 13, 2024

AMET & RoW volume recovery in the offing

Key Points

- We recently interacted with the management of GALSURF to understand the region-wise growth outlook, competitive intensity and margin delivery.
- Rising consumer confidence in Egypt and Turkey is encouraging for AMET. USA and Europe growth should be strong led by restocking.
- FY25 could be the only year post IPO wherein overall volume growth (our est. ~11%) should exceed 6%-8% guided range. Maintain Buy.

AMET and RoW can make a strong comeback in FY25: As highlighted in our recent [note](#), we expect AMET (dominated by Egypt and Turkey) and RoW (USA & Europe) to make a strong comeback in FY25. Consumer confidence index continues to show a sequential improvement in both Egypt and Turkey for the last six months and we expect the same to get reflected in the company's performance in the coming quarters. Growth in RoW in FY25 should be a function of re-stocking in USA and Europe and continued high demand for premium sustainable ingredients. While de-stocking in developed markets has largely played out, price cuts taken by HPC players should aid volume growth in the coming quarters.

India growth on track; market share gain continues: Volume delivery from India has been consistent and is expected to continue on the back of an increase in market share and overall penetration play. Even Croda delivered strong double-digit growth in India in CY23. Our research suggests that GALSURF's Specialty Care volume in India has been showing a good traction over the last 3-4 years.

3Q volume performance was an indication of Specialty Care pick-up: Volume growth of 8.4% YoY in 3QFY24 was a function of ~2%/~21% YoY growth in Performance Surfactants/Specialty Care products, as per our estimates. Strong volume growth in Specialty Care despite North America not contributing meaningfully is a sign of overall demand momentum in that segment.

Why volume growth trajectory can be better than guided range?: GALSURF's blended volume growth CAGR over FY19-FY23 stood at ~2% despite India growing in high single digits. Ex-India portfolio reported a ~2% CAGR decline in volume over the same period. While the official volume guidance remains at ~6-8%, we believe that volume growth trajectory over next 2-3 years should be better than that because of exceptionally low base of AMET and RoW markets where green-shoots of recovery are visible. We are building in ~11% volume growth in FY25 and FY26 on an overall basis. Mix improvement and operating leverage should enable GALSURF report Rs22.50 EBITDA/kg by FY26 (Rs19.20 in FY24E), in our view.

Est Change	No change
TP Change	No change
Rating Change	No change

Company Data and Valuation Summary

Reuters:	GALX.BO
Bloomberg:	GALSURF IN Equity
Mkt Cap (Rsbn/US\$bn):	83.2 / 1.0
52 Wk H / L (Rs):	2,979 / 2,222
ADTV-3M (mn) (Rs/US\$):	83.5 / 1.0
Stock performance (%) 1M/6M/1yr:	(9.8) / (12.4) / (2.0)
Nifty 50 performance (%) 1M/6M/1yr:	1.0 / 2.5 / 29.1

Shareholding	1QFY24	2QFY24	3QFY24
Promoters	70.9	70.9	70.9
DILs	12.7	12.6	12.4
FILs	3.0	3.1	3.6
Others	13.4	13.4	13.0
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24E	FY25E	FY26E
Net Sales	44,452	38,583	43,110	48,186
Growth YoY%	20.6	-13.2	11.7	11.8
Gross margin %	30.3	33.2	34.6	35.5
EBITDA	5,683	4,810	5,765	6,904
EBITDA margin %	12.8	12.5	13.4	14.3
Adj PAT	3,810	2,985	3,691	4,618
Growth YoY%	45.0	-21.6	23.6	25.1
Adj EPS	107.5	84.2	104.1	130.3
RoCE (pre-tax)	23.7	16.4	17.5	19.4
RoCE	19.1	13.3	14.3	15.8
RoE	22.0	14.9	16.3	17.8
P/E	22.4	28.6	23.1	18.5
EV/EBITDA	15.0	17.6	14.4	11.8
P/BV	4.5	4.0	3.5	3.1

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links –

[NBIE Oleochemicals Thematic](#)

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Scenario analysis

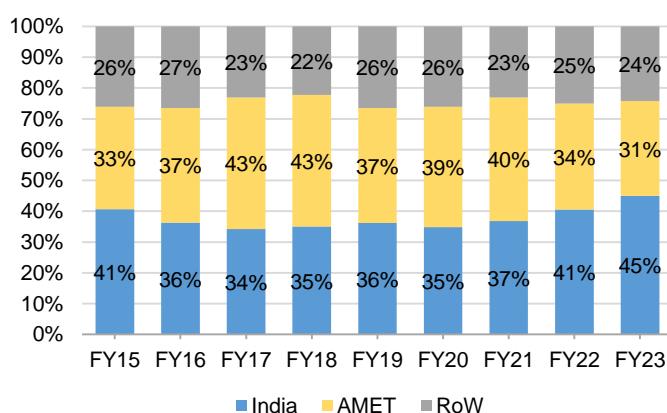
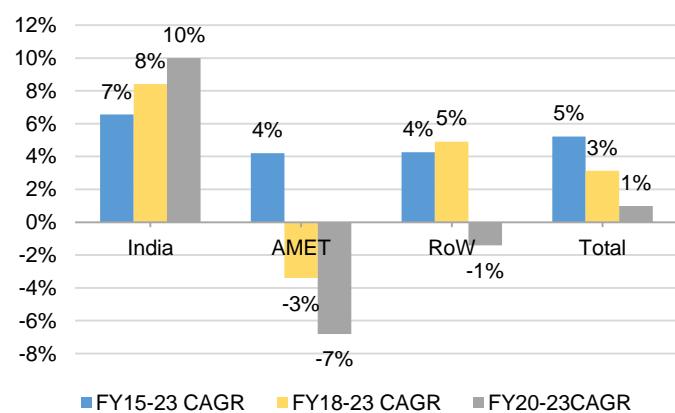
Particulars	Base case			Bull-case			Bear-case		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Volume (MTPA)									
Performance surfactants	160,782	176,861	194,547	160,782	180,076	201,685	160,782	173,645	187,536
Growth YoY		10%	10%		12%	12%		8%	8%
Specialty care	89,308	100,025	112,028	89,308	101,811	116,064	89,308	98,239	108,062
Growth YoY		12%	12%		14%	14%		10%	10%
Total	250,090	276,885	306,574	250,090	281,887	317,750	250,090	271,884	295,599
Growth YoY		11%	11%		13%	13%		9%	9%
EBITDA/Kg	19.2	20.8	22.5	19.2	22.9	24.8	19.2	18.7	20.3
EBITDA (Rsmn)	4,810	5,765	6,904	4,810	6,456	7,872	4,810	5,095	5,992
Depreciation	1,027	1,193	1,285	1,027	1,193	1,285	1,027	1,193	1,285
EBIT	3,782	4,572	5,619	3,782	5,263	6,586	3,782	3,902	4,706
Interest	260	293	253	260	293	253	260	293	253
Other income	150	250	300	150	250	300	150	250	300
PBT	3,673	4,530	5,666	3,673	5,221	6,633	3,673	3,859	4,753
ETR	18.7%	18.5%	18.5%	18.7%	18.5%	18.5%	18.7%	18.5%	18.5%
APAT	2,985	3,691	4,618	2,985	4,254	5,406	2,985	3,144	3,874
No of shares	35	35	35	35	35	35	35	35	35
EPS	84	104	130	84	120	153	84	89	109
P/E	29	23	19	29	20	16	29	28	22

Source: Company, Nirmal Bang Institutional EquitiesResearch

Exhibit 2: Historical volume performance

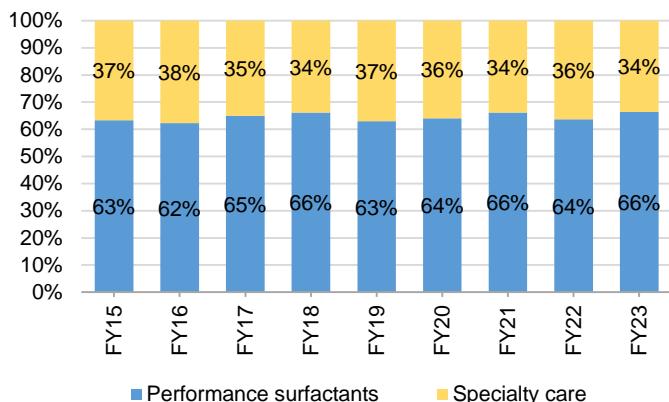
Volume (MTPA)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
India	57,550	60,735	69,238	77,546	77,934	86,663	94,809	103,721
AMET	58,938	75,754	84,238	80,027	87,549	94,728	80,424	70,854
ROW	42,005	40,990	43,941	56,684	58,271	54,309	58,545	55,852
Total	158,493	177,479	197,418	214,257	223,755	235,700	233,778	230,427
Volume growth YoY	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
India	-8%	6%	14%	12%	1%	11%	9%	9%
AMET	16%	29%	11%	-5%	9%	8%	-15%	-12%
ROW	5%	-2%	7%	29%	3%	-7%	8%	-5%
Total	3%	12%	11%	9%	4%	5%	-1%	-1%

Source: Company, Nirmal Bang Institutional EquitiesResearch

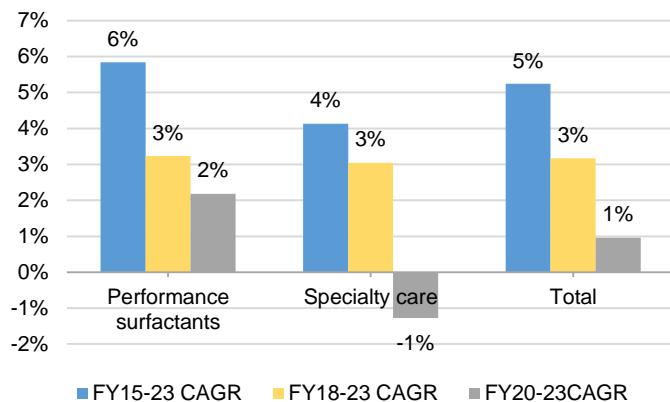
Exhibit 3: Region-wise volume share

Exhibit 4: Region-wise volume CAGR


Source: Company, Nirmal Bang Institutional Equities Research

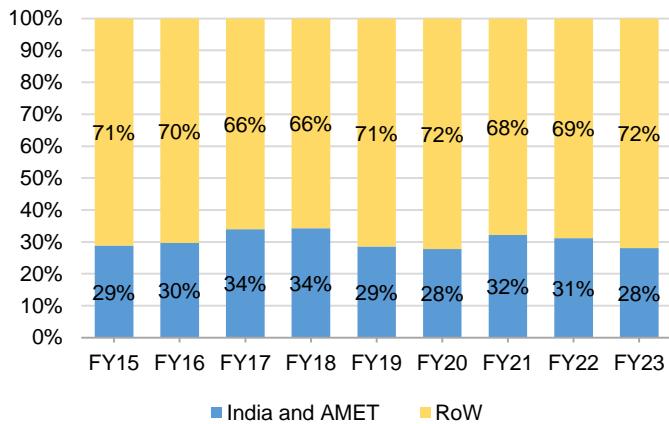
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Segment-wise volume share


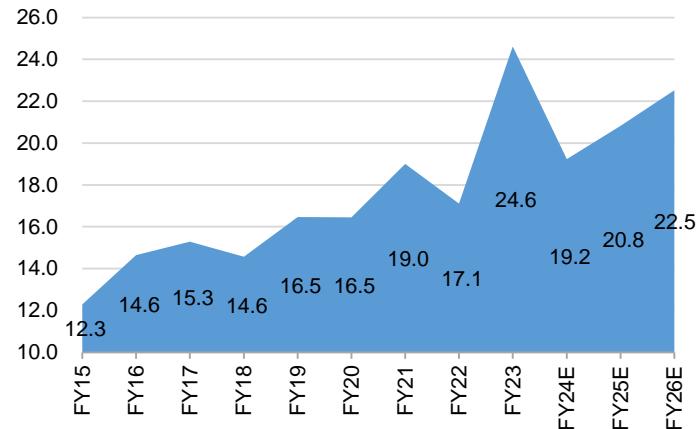
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Segment-wise volume CAGR


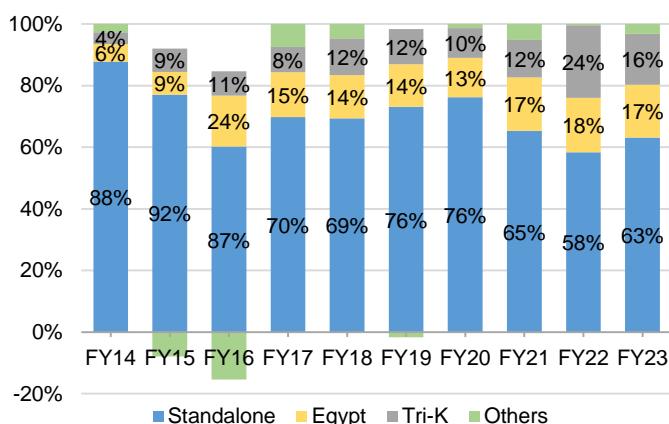
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Specialty Care region-wise volume share


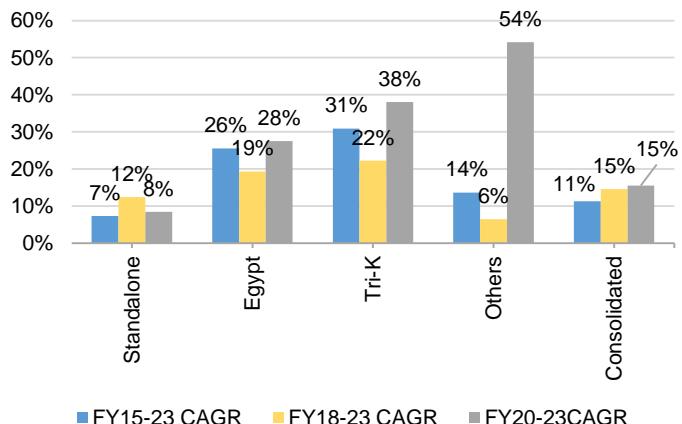
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: EBITDA/kg


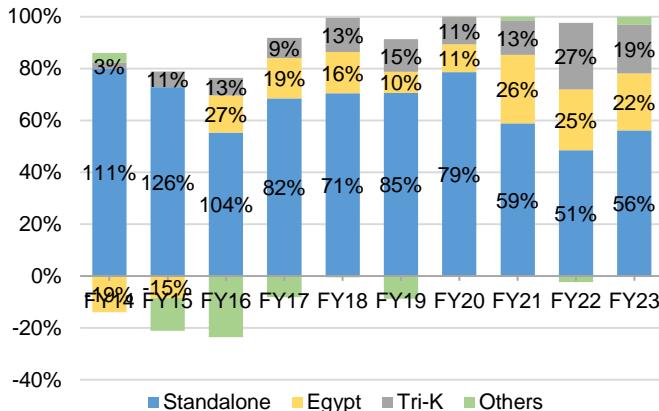
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Consolidated EBITDA break-down


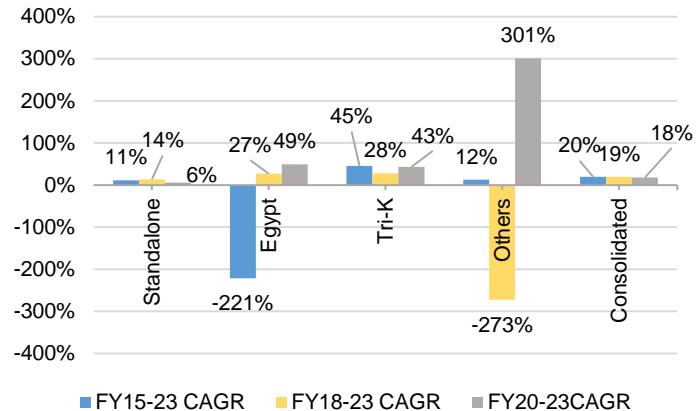
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: EBITDA CAGR


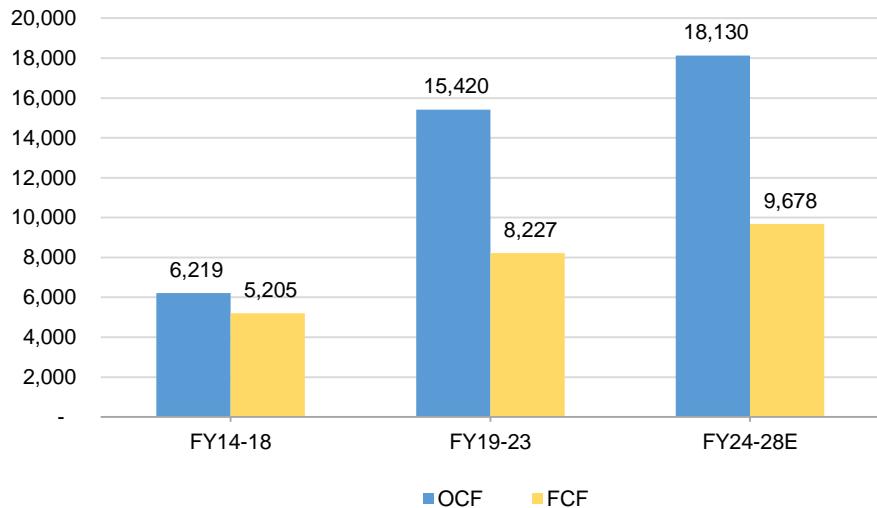
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Consolidated APAT break-down


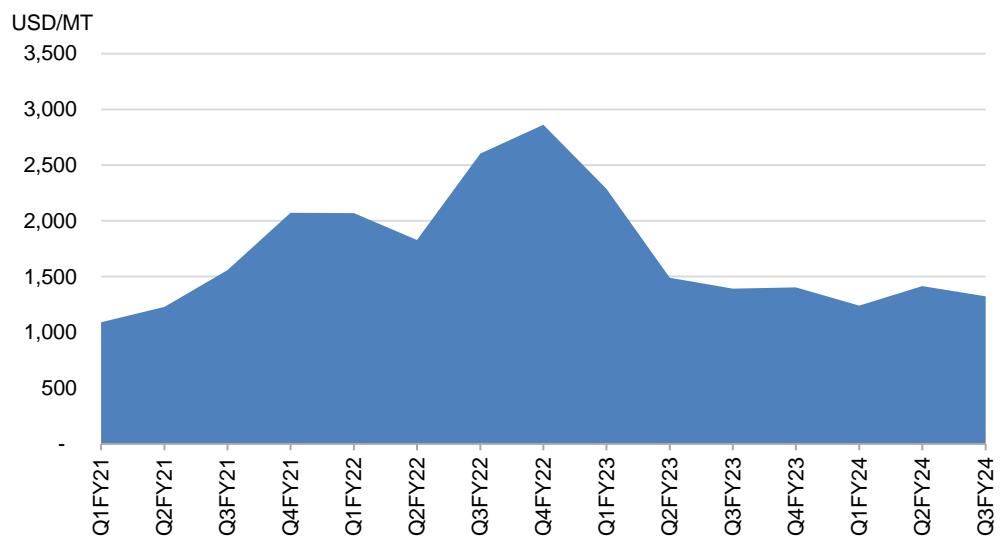
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: APAT CAGR


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Cash flow generation continues to be strong


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Fatty Alcohol prices stable for last 4 quarters


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Quarterly segment-wise and subsidiary-wise performance

Segment information	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Volume Data									
Volume Mix (%)									
Performance surfactants	63.7	61.6	64.1	65.6	67.1	68.5	66.8	65.1	63.0
Specialty Care	36.3	38.4	35.9	34.4	32.9	31.5	33.2	34.9	37.0
Volume sales ('000/MT)									
Performance surfactants	37.0	35.4	35.4	38.9	39.2	39.6	39.6	42.4	39.9
YoY (%)	1.0	-15.1	-8.6	2.3	5.9	11.9	11.8	9.0	1.8
Specialty Care	21.0	22.1	19.8	20.4	19.2	18.2	19.7	22.7	23.4
YoY (%)	-2.7	3.8	-6.0	-2.0	-8.7	-17.5	-0.5	11.3	21.8
Overall sales volume	58.0	57.5	55.3	59.3	58.4	57.9	59.4	65.1	63.3
YoY (%)	-0.4	-8.7	-7.7	0.8	0.6	0.6	7.4	9.8	8.4
Revenue Data									
Revenue mix (%)									
Performance surfactants	61.22	57.97	60.50	63.02	63.01	75.03	61.65	59.62	59.08
Specialty Care	38.78	42.03	39.50	36.98	36.99	24.97	38.35	40.38	40.92
Segment Revenue (mn)									
Performance surfactants	5,700	6,110	7,000	7,770	6,830	7,360	5,822	5,877	5,594
YoY (%)	42.1	23.2	35.7	39.0	19.8	20.5	-16.8	-24.4	-18.1
Specialty Care	3,610	4,430	4,570	4,560	4,010	2,450	3,621	3,981	3,874
YoY (%)	30.3	52.8	45.5	41.2	11.1	-44.7	-20.8	-12.7	-3.4
Total	9,310	10,540	11,570	12,330	10,840	9,810	9,443	9,858	9,468
YoY (%)	37.3	34.1	39.4	39.8	16.4	-6.9	-18.4	-20.0	-12.7
Realisation data (Rs kg)									
Performance surfactants	154	173	198	200	174	186	147	139	140
YoY (%)	40.7	45.1	48.4	35.9	13.2	7.6	-25.6	-30.6	-19.6
Specialty Care	172	200	230	224	209	134	183	175	166
YoY (%)	33.9	47.2	54.8	44.0	21.7	-33.0	-20.4	-21.6	-20.7
Total	160	183	209	208	186	170	159	151	150
YoY (%)	37.8	46.9	51.0	38.7	15.8	-7.5	-24.0	-27.2	-19.4
Profitability data (per kg)									
Gross profit/kg	44.0	60.4	64.6	55.9	58.5	54.6	51.4	47.5	47.3
YoY (%)	0.5	32.9	47.5	41.1	33.0	-9.6	-20.5	-14.9	-19.2
Staff costs/kg	8.9	10.1	11.2	10.6	10.3	11.0	12.0	9.9	10.7
YoY (%)	5.5	8.4	23.7	30.2	15.6	8.3	7.3	-6.2	4.0
Other expenses/kg	21.9	25.0	26.6	23.1	21.8	20.3	18.6	18.4	18.8
YoY (%)	48.0	43.4	60.3	18.8	-0.5	-18.7	-30.1	-20.2	-13.8
EBITDA/kg	13.2	25.2	26.8	22.2	26.4	23.2	20.8	19.2	17.8
YoY (%)	-35.8	35.3	47.8	84.3	100.5	-7.8	-22.5	-13.6	-32.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Annual Segment Information

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Volume Mix									
Performance surfactants	66%	63%	64%	66%	64%	66%	64%	64%	63%
Speciality Care	34%	37%	36%	34%	36%	34%	36%	36%	37%
Revenue Mix									
Performance surfactants	66%	63%	61%	64%	61%	65%	59%	58%	57%
Speciality Care	34%	37%	39%	36%	39%	35%	41%	42%	43%
Volume sales ('000/MT)									
Performance surfactants	1,30,596	1,35,337	1,43,521	1,56,153	1,49,195	1,53,126	1,60,782	1,76,861	1,94,547
YoY (%)	13%	4%	6%	9%	-4%	3%	5%	10%	10%
Speciality Care	66,833	79,374	80,716	80,011	85,023	77,659	89,308	1,00,025	1,12,028
YoY (%)	8%	19%	2%	-1%	6%	-9%	15%	12%	12%
Overall sales volume	1,97,429	2,14,711	2,24,237	2,36,164	2,34,218	2,30,785	2,50,090	2,76,885	3,06,574
YoY (%)	11%	9%	4%	5%	-1%	-1%	8%	11%	11%
Segment Revenue (Rsmn)									
Performance surfactants	16,130	17,410	15,872	17,780	22,560	28,960	22,806	25,087	27,595
YoY (%)	14%	8%	-9%	12%	27%	28%	-21%	10%	10%
Speciality Care	8,310	10,270	10,148	10,170	14,420	15,590	15,777	18,024	20,590
YoY (%)	9%	24%	-1%	0%	42%	8%	1%	14%	14%
Total	24,440	27,680	26,020	27,950	36,980	44,550	38,583	43,110	48,186
YoY (%)	13%	13%	-6%	7%	32%	20%	-13%	12%	12%
Realisation/kg									
Performance surfactants	124	129	111	114	151	189	142	142	142
YoY (%)	1%	4%	-14%	3%	33%	25%	-25%	0%	0%
Speciality Care	124	129	126	127	170	201	177	180	184
YoY (%)	2%	4%	-3%	1%	33%	18%	-12%	2%	2%
Total	124	129	116	118	158	193	154	156	157
YoY (%)	1%	4%	-10%	2%	33%	22%	-20%	1%	1%
Consolidated EBITDA/kg	14.6	16.5	16.5	19.0	17.1	24.6	19.2	20.8	22.5
YoY (%)	-5%	13%	0%	16%	-10%	44%	-22%	8%	8%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Change in earnings estimates

Consolidated (Rsmn)	Old Estimates			New estimates			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	38,583	43,110	48,186	38,583	43,110	48,186	-	-	-
EBITDA	4,810	5,765	6,904	4,810	5,765	6,904	-	-	-
EBITDA %	12.5%	13.4%	14.3%	12.5%	13.4%	14.3%	-	-	-
APAT	2,985	3,691	4,618	2,985	3,691	4,618	-	-	-

Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 18: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	36,857	44,452	38,583	43,110	48,186
Growth YoY%	32.4	20.6	-13.2	11.7	11.8
COGS	25,885	31,001	25,785	28,207	31,056
Gross margin %	29.8	30.3	33.2	34.6	35.5
Staff costs	2,118	2,481	2,893	3,197	3,571
Other expenses	4,847	5,288	5,096	5,941	6,654
EBITDA	4,007	5,683	4,810	5,765	6,904
Growth YoY%	-10.7	41.8	-15.4	19.9	19.8
EBITDA margin %	10.9	12.8	12.5	13.4	14.3
Depreciation	711	835	1,027	1,193	1,285
EBIT	3,297	4,848	3,782	4,572	5,619
Interest	129	217	260	293	253
Other income	125	99	150	250	300
PBT (bei)	3,293	4,730	3,673	4,530	5,666
PBT	3,293	4,730	3,673	4,530	5,666
ETR	20.2	19.4	18.7	18.5	18.5
PAT	2,628	3,810	2,985	3,691	4,618
Adj PAT	2,628	3,810	2,985	3,691	4,618
Growth YoY%	-13.0	45.0	-21.6	23.6	25.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	355	355	355	355	355
Reserves	15,389	18,471	20,859	23,812	27,506
Net worth	15,744	18,826	21,214	24,166	27,860
Long term debt	796	891	1,673	1,550	770
Short term debt	2,864	1,827	1,827	1,827	1,827
Total debt	3,660	2,718	3,501	3,377	2,597
Other non-current liabilities	812	829	829	829	829
Total Equity & Liabilities	20,215	22,372	25,543	28,372	31,287
Gross block	14,081	16,640	18,640	20,140	21,640
Accumulated depreciation	6,477	7,405	8,432	9,625	10,911
Net Block	7,604	9,235	10,208	10,515	10,729
CWIP	2,055	1,392	845	845	845
Intangible and others	-	-	-	-	-
Other non-current assets	645	698	767	388	312
Investments	5	-	-	-	-
Trade receivables	6,380	6,148	5,158	5,761	6,441
Inventories	7,118	6,458	7,037	7,878	8,795
C&CE and others	711	2,476	4,143	5,516	6,053
Other current assets	1,483	932	1,398	2,098	3,147
Total current assets	15,697	16,019	17,743	21,259	24,443
Trade payables	5,189	4,302	3,383	3,768	4,220
Other current liabilities	525	609	578	810	769
Total current liabilities	5,790	4,972	4,019	4,633	5,042
Total Assets	20,215	22,372	25,543	28,372	31,287

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Cash flow

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	3,293	4,730	3,673	4,530	5,666
Depreciation	711	835	1,027	1,193	1,285
Interest	129	217	260	293	253
Other adjustments	-39	-3	-150	-250	-300
Change in Working capital	-3,450	903	-1,009	-1,529	-2,239
Tax paid	-594	-953	-688	-839	-1,048
Operating cash flow	49	5,730	3,113	3,397	3,617
Capex	-1,552	-1,461	-1,453	-1,500	-1,500
Free cash flow	-1,502	4,269	1,660	1,897	2,117
Other investing activities	711	-25	238	630	376
Investing cash flow	-841	-1,486	-1,215	-870	-1,124
Issuance of share capital	-	-	-	-	-
Movement of Debt	941	-1,039	783	-123	-780
Dividend paid (incl DDT)	-142	-1,275	-597	-738	-924
Other financing activities	-207	-328	-260	-293	-253
Financing cash flow	592	-2,643	-74	-1,154	-1,957
Net change in cash flow	-200	1,601	1,824	1,373	537
Opening C&CE	815	638	2,319	4,143	5,516
Closing C&CE	638	2,319	4,143	5,516	6,053

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Key ratios

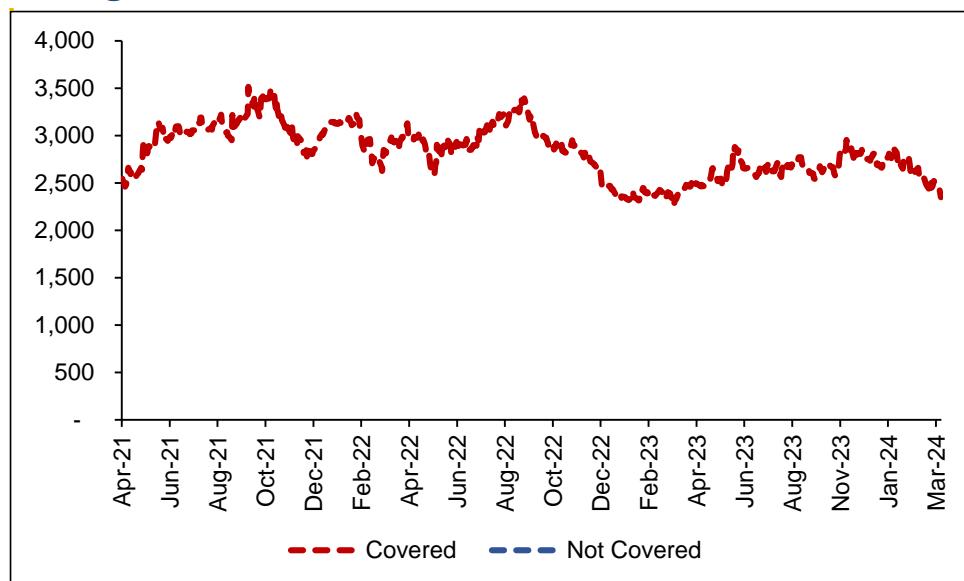
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
Adj EPS	74.1	107.5	84.2	104.1	130.3
Book value	444.1	531.0	598.4	681.7	785.9
DPS	18.0	4.0	16.8	20.8	26.1
Valuation (x)					
P/Sales	2.3	1.9	2.2	2.0	1.8
EV/sales	2.4	1.9	2.2	1.9	1.7
EV/EBITDA	22.0	15.0	17.6	14.4	11.8
P/E	32.4	22.4	28.6	23.1	18.5
P/BV	5.4	4.5	4.0	3.5	3.1
Return ratios (%)					
RoCE	15.0	19.1	13.3	14.3	15.8
RoCE (pre-tax)	18.8	23.7	16.4	17.5	19.4
RoE	18.3	22.0	14.9	16.3	17.8
Profitability ratios (%)					
Gross margin	29.8	30.3	33.2	34.6	35.5
EBITDA margin	10.9	12.8	12.5	13.4	14.3
PAT margin	7.1	8.6	7.7	8.5	9.5
Liquidity ratios (%)					
Current ratio	1.8	2.4	3.0	3.3	3.6
Quick ratio	1.0	1.4	1.8	2.1	2.3
Solvency ratio (%)					
Debt to Equity ratio	0.2	0.1	0.2	0.1	0.1
Net Debt to Equity ratio	0.2	0.0	-0.0	-0.1	-0.1
Turnover ratios					
Fixed asset turnover ratio (x)	2.7	2.9	2.2	2.2	2.3
Debtor days	55	51	55	55	55
Inventory days	56	56	48	48	48
Creditor days	44	39	41	41	41
Net Working capital days	67	68	62	62	62

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
1 April 2021	ACCUMULATE	2,546	2,800
9 June 2021	ACCUMULATE	3,023	3,200
11 August 2021	ACCUMULATE	3,075	3,200
23 September 2021	BUY	3,383	4,000
11 November 2021	BUY	3,033	3,800
14 February 2022	BUY	2,810	3,300
18 May 2022	BUY	2,688	3,100
10 August 2022	BUY	3,152	3,700
19 September 2022	ACCUMULATE	3,160	3,500
23 September 2022	ACCUMULATE	3,159	3,500
10 November 2022	ACCUMULATE	2,820	3,000
13 February 2023	ACCUMULATE	2,316	2,500
22 March 2023	ACCUMULATE	2,404	2,500
24 May 2023	ACCUMULATE	2,593	2,500
14 August 2023	ACCUMULATE	2,709	2,800
12 November 2023	ACCUMULATE	2,952	2,900
26 December 2023	Buy	2,661	3,100
13 February 2024	Buy	2,622	3,100
28 February 2024	Buy	2,442	3,300
13 March 2024	Buy	2,405	3,300

Rating Chart



DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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