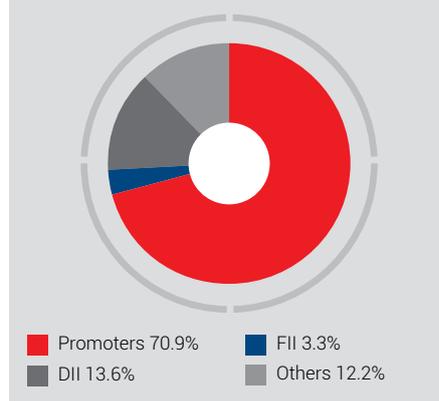




# Galaxy Surfactants Ltd.

**CMP: Rs 1480**
**Rating: BUY**
**Target: Rs 1680**
**Company Information**

BSE Code	540935
NSE Code	GALAXYSURF
Bloomberg Code	GALSURF.IN
ISIN	INE600K01018
Market Cap (Rs. Cr)	5250
Outstanding shares (Cr)	3.6
52-wk Hi/Lo (Rs.)	1789.5 / 1027.6
Avg. daily volume (1yr. on NSE)	18395
Face Value (Rs.)	10
Book Value	300.7

**Share holding pattern as on March 2020**


## Company Overview

Galaxy Surfactants Ltd. (GSL) is leading manufacturers of Performance Surfactants (61%) and Specialty Care Products (39%) with over 200 product grades. These products are used in consumer-centric Home and Personal Care (HPC) products like hair care, oral care, skin care, cosmetics, soap, shampoo, lotion, detergent, cleaning products etc. Galaxy supplies to leading MNC's and regional as well as local FMCG's like Unilever, Dabur, P&G, Colgate Palmolive, Reckitt Benckiser, Himalaya, Henkel, Emami, L'oreal, Cavinkare etc. Since incorporation in 1986, GSL has expanded and diversified

its product portfolio, client base and geographical footprint. Currently, Galaxy is among the largest manufacturer of performance surfactants and specialty care products in India with a cumulative capacity of ~4.36,500 tonnes (t) at its 7 strategic manufacturing locations - 5 in India and 2 globally. Its plants are located in Maharashtra, Gujarat, Egypt and USA. The company caters to 1,750+ customers in over 75+ countries across India, Africa, Middle-east and Turkey (AMET), Americas (North and South) and Europe.

## Investment Rationale

### Q4FY20 Result Analysis

Consolidated net sales in Q4FY20

stood at Rs. 656.7 crore, which declined by 3.72% YoY from Rs. 682.0 crore in Q4FY19. EBITDA stood at Rs. 102.6 crore in Q4FY20 that increased by 7.7% YoY. For Q4FY19, it posted EBITDA of Rs. 95.3 crore. EBITDA margin as of Q4FY20 was at 15.63% that increased by 1.66% YoY compared to the same quarter last year. Consolidated profit before tax for Q4FY20 stood at Rs. 81.6 crore, rising 4.6% from the year ago period. Total tax expenses stood at Rs. 18.8 crore in Q4FY20 as against Rs. 20.9 crore in Q4FY19. The consolidated net profit in Q4FY20 came in at Rs. 62.8 crore that increased by 9.98%, as compared to Q4FY19 when it reported Rs. 57.1 crore. The net profit margin

in Q4FY20 came in at 9.56% with a growth of 1.19% YoY. The net profit margin for Q4FY19 was at 8.37%. In terms of volume, domestic India market remained flat (+0.5%), though second half was stronger than the first half of FY20. In FY20 company registered a growth of 4.4% in volume with Performance Surfactants volume increased by 6.0% and Specialty Care Products volume increased by 1.7%. EBITDA/MT remained stable at Rs. 16,716 for FY20 as against Rs. 16,676 in FY19.

### Minimal impact due to Covid-19

Galaxy Surfactants said the company's products have been classified as essential items as they are used for cleaning and sanitizing purposes. The company does not expect any substantial contraction in the demand for its products post COVID 19 as they are used in manufacture of consumer cleaning products in home and personal care. The company does not expect demand for premium category specialty products being impacted by down trading due to decline in consumer incomes. Further, the company said with the cash flows continuing on account of ongoing business operations, company do not anticipate any stress on liquidity. Being cash positive in both April & May (including subsidiaries) the liquidity position remains

**The company does not expect any substantial contraction in the demand for its products post COVID 19 as they are used in manufacture of consumer cleaning products in home and personal care.**

good. The company is not seeking for any moratorium on debt repayment obligations and all the debt repayment obligations would be honored on time. Hence, assets, capital and financial resources are unlikely to see any economic impairment. Business will get impacted to the extent operations are impacted on account of restrictions on movement of cargo. However gradually the situation started improving from mid-April with necessary clarifications provided by the Government on movement of goods and persons. May was better than April and the company expects that situation will gradually improve going forward.

### Capex plans on track

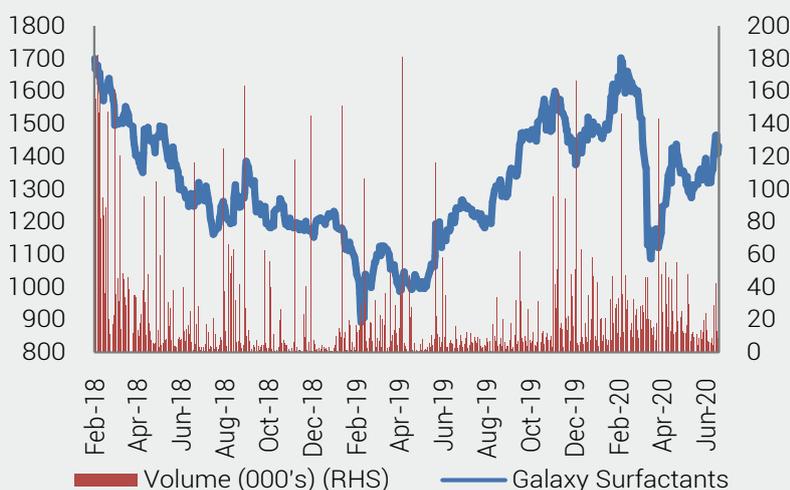
The company has tripled its total

capacity from 125,000t in FY09 to 368,095t in FY19 and further to 436,488t in November 2019. In last 2 years GSL has incurred a capex of ~Rs. 330 crores to expand its Performance Surfactants' capacity at Jhagadia by ~48kT in FY19, taking the Jhagadia's capacity to 131kT in Q1FY20. Jagadia plant became operational last quarter for the performance surfactants division. Further, GSL spent Rs. 60-70 crore to expand the Specialty Care products' production at Jhagadia, which will be commissioned in 2HFY21. Rs 80 crore is being incurred to build a multipurpose plant at Tarapur, which will also come onstream in 2HFY21. The company has a capex of USD7mn for Tri-K which is completed in mid-Jan'20. GSL's R&D facility at Tarapur and Tri-K Industries in US is currently undergoing expansion involving an outlay of Rs. 8 crores. The company expects to spend normal maintenance capex in FY21 as currently it has no expansion plan. Further as per the management, Performance Surfactants capacity is sufficient for the next 3-4 years' growth while Specialty Care Products to suffice for a longer 7-8 year horizon. With this major investment milestone, company's free cash flows are expected to improve going forward with lower reliance on debt.

### Diversified product portfolio and customer base

Galaxy has a diversified and strong product portfolio comprises over 200 product grades and caters to a large and varied HPC clientele globally. The company addresses the broader market in terms of both, product types (oral care, skin care/hair care etc.) and customer segments (mass, masstige and prestige) within the HPC industry. Galaxy has a balanced mix of high-volume performance products (with inelastic demand) and high-margin speciality care products (with unique functionalities), which provide product differentiation to

Galaxy Surfactants 3Yr. Price Chart



a customers' end-products. Galaxy cross-sells products to 1,750+ customers in more than 75 countries. The company classifies customers into 3 categories – multinational, regional and local and niche players. The company derives 56% of revenues from MNCs, 10% from regional and 34% from local and niche FMCG companies – largely aligned to overall customer segmentation at the industry level. Galaxy has successfully diversified its geographical footprint over the years, in addition to consolidating its position in India. The company is present in over 75 countries across key geographies of India, AMET, Americas (North and South) and Europe. This helps to diversify the product risks, geographical risks, economic risks and customer risks.

### Key Risks

- Any change in negotiations in High MNC customer base can impact margin growth
- Any disruption in supply chain in raw material pricing and sourcing
- Delay in capex implementation or plant synchronisation (debottlenecking)

**Going forward, continued growth momentum in performance surfactants across markets combined with growing premiumization trends in emerging markets (EM), would enable Galaxy to generate healthy cash flow and return ratio.**

### Valuation

Galaxy is focused on the home and personal care segment and it is expected that Galaxy has the potential to grow at a rate faster than FMCG industry in India on back of geographically diversified revenue mix, deep client relationships, cost competitive manufacturing operations and experienced management team. The coming capacity expansion and higher utilization would support

volume growth. Galaxy's R&D capabilities position it well to innovate and be part of the premiumization trend. Galaxy is set to capitalize on improving demand by gaining market share both domestically and globally. Mild and non-toxic products are gaining traction and this will help Galaxy grow above market growth rate in the long term. Tri-K recently launched a new protein dedicated to hair and skin health and such launches would help improve growth in developed markets. Management expects that rising geopolitical tensions and the outbreak of coronavirus would have a minimal impact on company's performance. Going forward, continued growth momentum in performance surfactants across markets combined with growing premiumization trends in emerging markets (EM), would enable Galaxy to generate healthy cash flow and return ratio. Hence, we recommend our investors to BUY the scrip for a target of Rs 1680 from 12-18 months investment perspective. Currently, the scrip is valued at P/E multiple of 20.7x on FY21E EPS.

Particulars (in Rs Cr)	FY19	FY20	FY21E	FY22E
Net Sales	2763.0	2596.4	2853.4	3227.2
Growth (%)	13.5	-6.0	9.9	13.1
EBITDA	353.4	374.8	405.2	484.1
EBITDA Margin (%)	12.8	14.4	14.2	15.0
Net profit	191.0	230.4	254.0	306.6
Net Profit Margin (%)	6.9	8.9	8.9	9.5
EPS (Rs)	53.9	65.0	71.5	86.4

Consensus Estimate: Ashika Research

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