

Galaxy Surfactant

Growth and quality

Galaxy Surfactants' (GSL) volume growth momentum has the potential to accelerate, accompanied by margin expansion. Global home and personal care leaders have increased the volume growth outlook for 2024 after strong volumes in Q1 (Exhibits 3 to 4). Demand for premium specialty care products is expected to rebound as demand in Europe and North America rebounds with the easing of inflation and the end of inventory destocking. Demand in the domestic and RoW markets shall continue. We expect per unit EBITDA to improve from INR 18.59/kg in FY24 to INR 20.45/22.23/kg in FY25/FY26 owing to (i) a change in product mix towards better-margin products and (ii) operating leverage. Volume growth will be 9/9% while EBITDA margin will expand by 89/72 bps to 13.1/13.8% in FY25/26.

Galaxy Surfactants' balance sheet has turned net cash with INR 1.1bn of net cash at FY24 end. The company will generate OCF and FCF of INR7.27 mn and INR4.87 mn, spread over FY25-26. We are expecting an earnings CAGR of 22% over FY24-26E. RoE will improve from 14.8% in FY24 to 17% in FY26. Currently, the stock is trading at 26.8/22.1 FY25/FY26. We believe it is contextually low. Maintain BUY on Galaxy Surfactants with a target price of INR3,465.

Volumes expected to grow at 9/9% in FY25/FY256:

- In FY24, the overall volume growth was ~7.7%YoY, led by ~15% YoY volume growth in speciality care while performance surfactants reported ~4%YoY volume growth.
- Performance surfactants have seen a CAGR of 2.6% from FY20 to FY24 despite challenges in the AMET region. The same has been primarily driven by consistent domestic volume growth of 10%. Domestic demand has seen good traction in home care products, mainly in liquid fabric care.
- In H1FY24, sales volume in the AMET region was impacted by volatility in currency and higher inflation. In H2FY24, food inflation moderated, and demand stabilised but the Red Sea crisis impacted growth. The supply chain was impacted in H2FY24 from India to Egypt and from Egypt to the Asian and US markets.
- We estimate that the Rest of the World (ROW) volume has increased by 14%YoY in FY24, compared to a degrowth of 5% in FY23.
- This growth is primarily driven by mass-produced specialty care products. Europe and North America markets are premium specialty care markets. Higher inflation and inventory destocking have resulted in muted growth in these regions. With the easing of inflation in Europe, we expect a demand revival for premium specialty care products. It will support volume growth momentum as well as margin expansion.
- We expect overall volume growth of ~9/9% YoY in FY25/FY26. Specialty care volume is expected to grow at ~14/14% in FY25/FY26 while performance surfactants volume is expected to grow by ~6/6% in FY25/FY26.
- Domestic volume growth momentum is expected to continue, catalysed by (i) favourable macro and (ii) increasing share of existing customers and addition of new customers.
- Growth momentum in RoW is expected to continue in FY25. Additionally, the demand in Europe and North America is expected to rebound, primarily due to (a) the easing inflation situation and (b) the end phase of inventory destocking. This demand uplift will drive growth towards premium specialty care.

BUY

CMP (as on 1 st July 2024)	INR 2,778
Target Price	INR 3,465
NIFTY	24,142

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 3,101	INR 3,465
	FY25E	FY26E
EPS %	-1.1	-2.5

KEY STOCK DATA

Bloomberg code	GALSURF IN
No. of Shares (mn)	35
MCap (INR bn) / (\$ mn)	98/1,180
6m avg traded value (INR mn)	83
52 Week high / low	INR 2,974/2,241

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.2	0.1	4.8
Relative (%)	10.8	(9.8)	(18.0)

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	70.92	70.91
FIs & Local MFs	12.44	12.73
FPIs	3.61	3.76
Public & Others	13.03	12.60
Pledged Shares	0.00	0.00

Source: BSE

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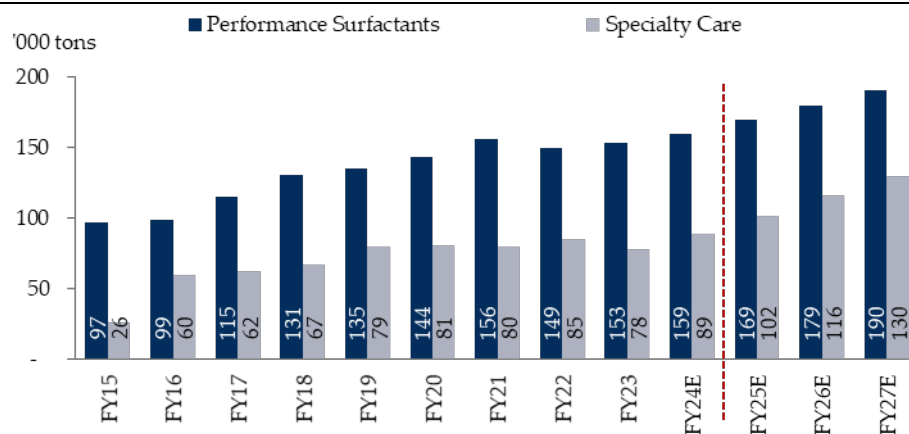
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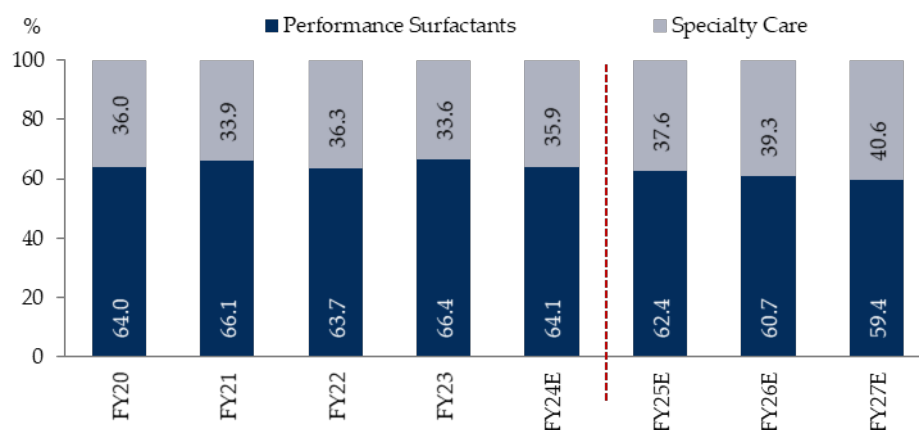
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- Large multinational companies (MNCs) expect volume-driven growth in the coming year. HUL expects the improvement in demand to continue gradually, owing to better monsoons and improving economic indicators. The company is focusing on volume-led growth in the medium term (Exhibit3).
- The underlying volume growth (UVG) for the home care business of Unilever Global has shown growth consistently over the previous three quarters. In Q1CY24, UVG was 4.3%, up from less than 1% in the previous two quarters (Exhibit 5).
- Unilever Global has changed its commentary on CY24 outlook, post Q1CY24 results, versus its earlier commentary in CY23. The company is maintaining sales growth for the full year in the range of 3-5% but expects contribution from volume to be higher. In its earlier commentary over the CY24 outlook, the company mentioned that growth will be a balance between volume and price (Exhibit 4).
- Henkel has revised its sales growth outlook for FY24 to 3-5% from 2-4%, after posting strong numbers in Q1CY24. Colgate-Palmolive returned to positive volume growth in Q1CY24.

Exhibit-1 : Segmental volumes trend

Source: Company, HSIE Research

Exhibit-2 : Share of Specialty Care to increase

Source: Company, HSIE Research

Exhibit 3: Positive outlook by HUL on Home care

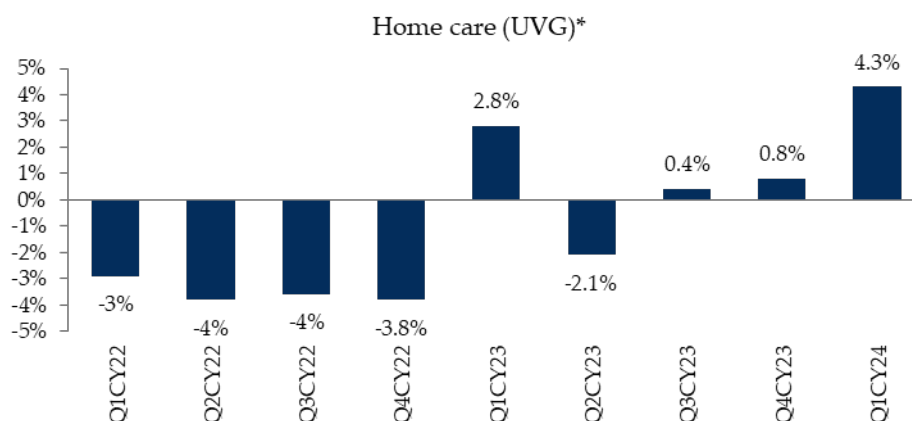
	Mar-18	Mar-19	Mar-20	Mar-21
HUL	Looking ahead: Near-term commentary: Gradual improvement in demand Home care: Double digit volume growth	Looking ahead: Near-term commentary: Market growth has moderated Home care: Strong volume led growth. Fabric wash: Growth driven by premiumisation and market development initiatives.	Looking ahead: Near-term commentary # Difficult to estimate market growth and/or consumer demand	Looking ahead: Near-term commentary # Demand outlook difficult to predict due to covid Looking ahead: Mid-long term commentary # Deliver volume led competitive growth Home care: Fabric wash: Strong sequential growth aided by increased mobility, performance competitive Household care: Strong double digit growth led by Vim
Total Galaxy volume growth	11.2%	8.8%	4.4%	5.3%
Performance surfactants	13.2%	3.6%	6.0%	8.8%
Specialty care	7.6%	18.8%	1.7%	-0.9%
India business volume growth	14%	12%	1%	11%
Remarks		Demand revival with strong demand in Specialty care	Growth moderated as commented in FY19 end outlook	Overall volume growth impacted owing to specialty care
	Mar-22	Mar-23	Mar-24	
HUL	Looking ahead: Near-term commentary # Challenging operating environment # Inflation impacting volumes, growth predominantly to be price-led Looking ahead: Mid-long term commentary # Topline growth driven by premiumisation and market development, modest margin expansion Home care: Fabric wash: volume grew mid-single digit	Looking ahead: Near-term commentary # Build back gross margin. Right price-value equation for competitive volume Looking ahead: Mid-long term commentary # Topline driven with modest margin expansion Home care: Strong double digit growth led by premium portfolio Household care: Strong double-digit value and volume growth driven	Looking ahead: Near-term commentary # FMCG demand to continue improving gradually, Optimistic of mid-term impact of better monsoon and improving macro-economic indicators Looking ahead: Mid-long term commentary # Focused on driving competitive volume led growth. Action underway to improve skin cleansing performance Home care: Fabric wash: Mid-single-digit volume growth, led by premium portfolio Household care: Volume grew in mid-single-digit, led by outperformance in Vim liquid	
Total Galaxy volume growth	-0.8%	-1.5%	7.7%	
Performance surfactants	-4.5%	2.6%	4.1%	
Specialty care	6.3%	-8.7%	14.8%	
India business volume growth	9%	9%	11%	
Remarks	As commented by HUL, volumes impacted adversely in FY22	Volume degrowth as commented in Mar-22		

Source:- HSIE research, Company

Exhibit 4: Change in commentary post Q1CY24 results by Unilever Global

Unilever Global	CY23 commentary	Q1CY24 commentary
2024 Outlook	# Sales growth for full year in the range 3-5%. More balance between volume and price	# Sales growth for full year in the range 3-5%. But increasing contribution from volume growth
Home care	# Fabric enhancers growth driven by Turkey and Latin America # Oral care consistent mid-single digit growth through the year.	# Fabric cleaning: Good volume growth while Home & Hygiene grew mid-single digit
Personal care	# Skin cleansing return to volume growth, with Dove body wash relaunch in US	# Oral care continued good momentum

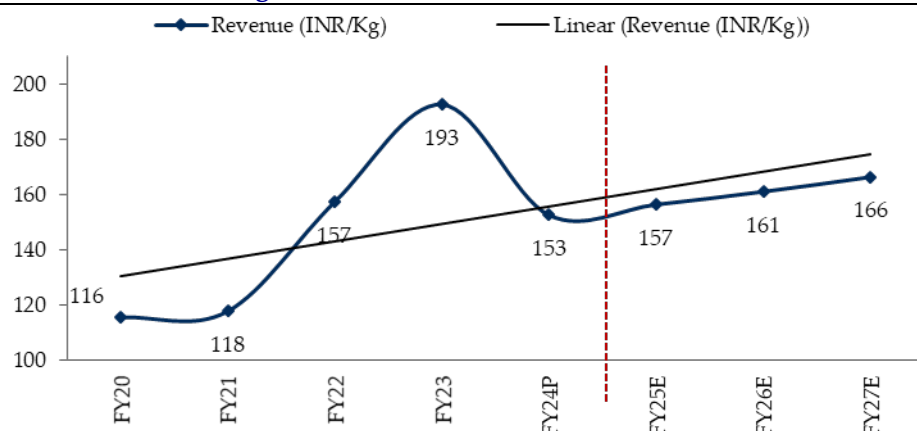
Source:- HSIE research, Company

Exhibit 5: UVG in home care business of Unilever is back


Source: HSIE research, Company, *Underlying volume growth

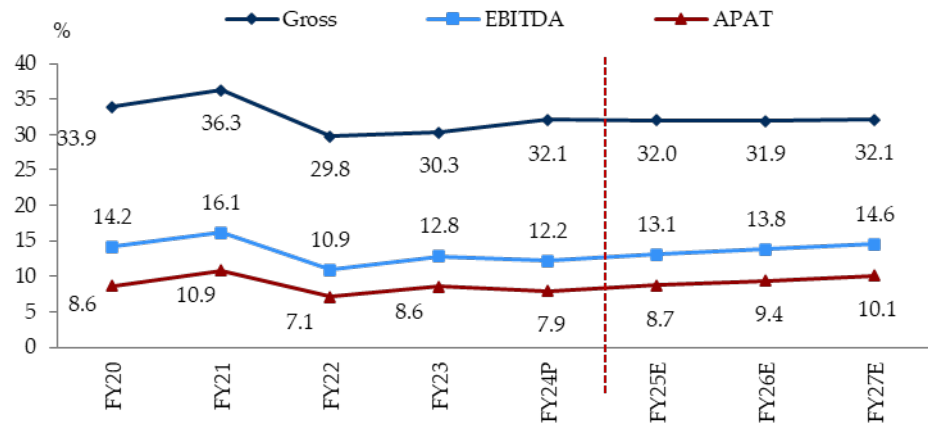
EBITDA per kg is set to improve

In FY24, revenue decreased by 14.6%YoY from INR 44.45bn to INR 37.94bn. EBITDA decreased by 19%YoY from INR5.68bn to INR 4.62bn. EBITDA margin decreased from 12.8% in FY23 to 12.2% in FY24. The margin was impacted by operating expenses. It was on the higher side due to (i) higher power and fuel costs in H1FY24 (Exhibit 9, 10, 11) and (ii) absorption of increased freight cost in H2FY24 due to the Red Sea issue. Employee expense remained on the higher side which increased by 11%YoY from INR2.48bn to INR 2.75bn.

Exhibit-6: Revenue/Kg Of External Sales


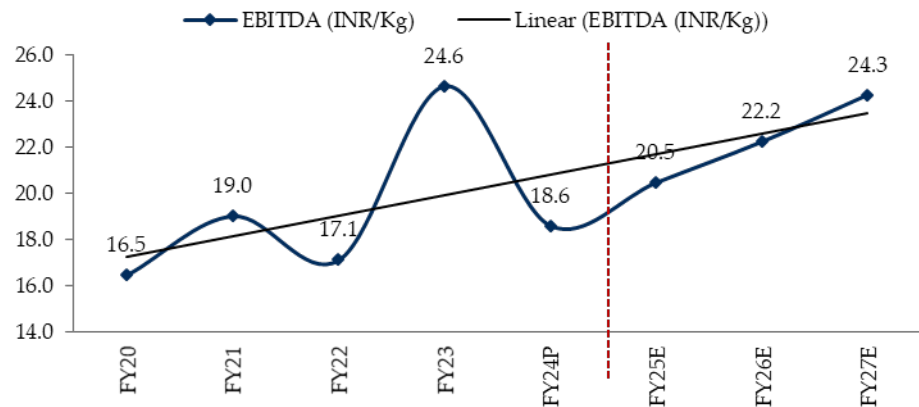
Source: Company, HSIE research

Exhibit-7: Gross margin, EBITDA margin, APAT trend



Source: Company, HSIE research

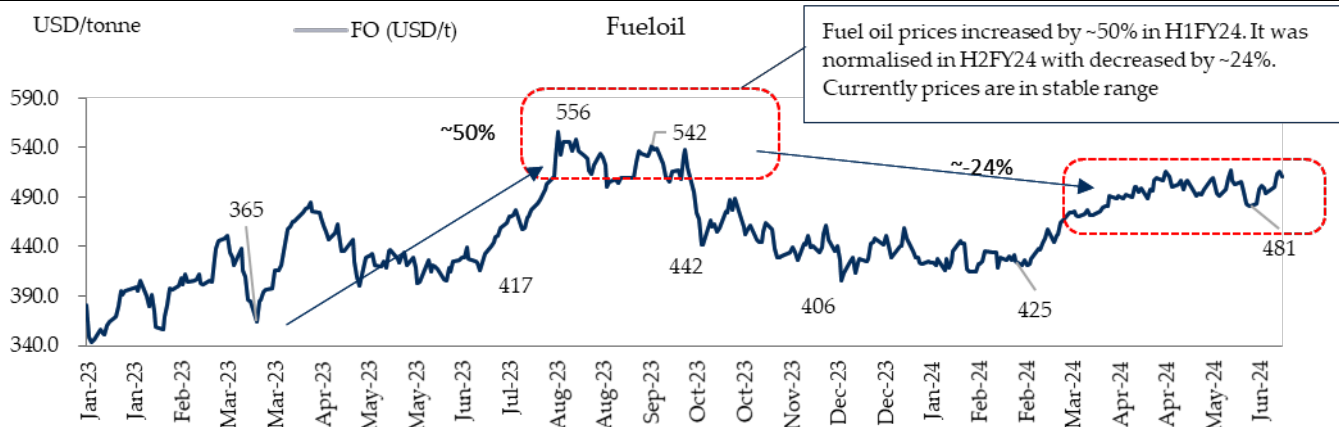
Exhibit-8 : EBITDA/Kg On a Rise



Source: Company, HSIE Research

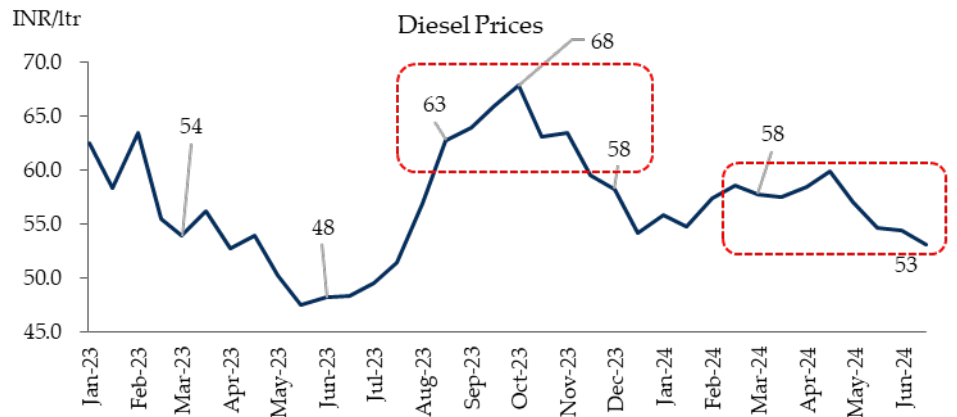
We expect EBITDA/kg to improve from 18.6Rs/kg in FY24 to ~INR20Rs/kg in FY25 as freight cost is expected to normalise in H1FY25. The company has started to pass on some of the increased freight costs to the customers from Q4FY24. Fuel oil, HSD and coal prices have corrected in H2FY24 (Exhibit 9,10,11), which will improve margins. Additionally, demand is expected to rebound in premium speciality care, which will also improve per kg realisation and EBITDA.

Exhibit 9 : Fuel prices increased in H1FY24 while it normalised in H2FY24



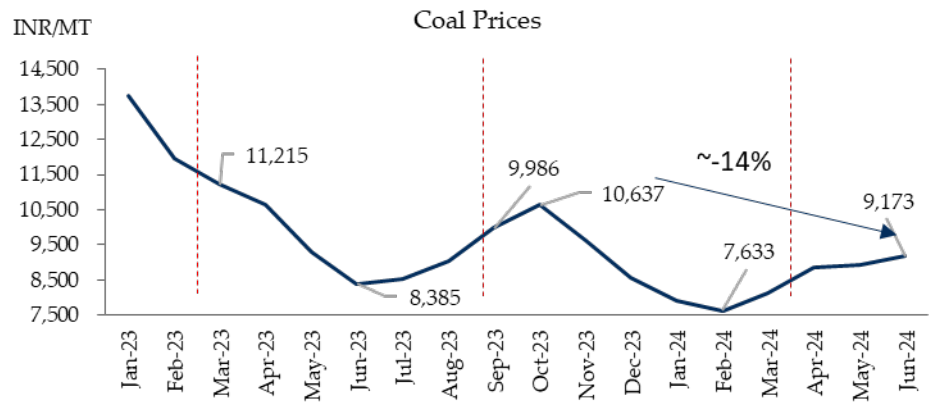
Source: Bloomberg, HSIE research

Exhibit 10: Diesel prices increased in H1FY24, decreased in H2FY24 and has normalised



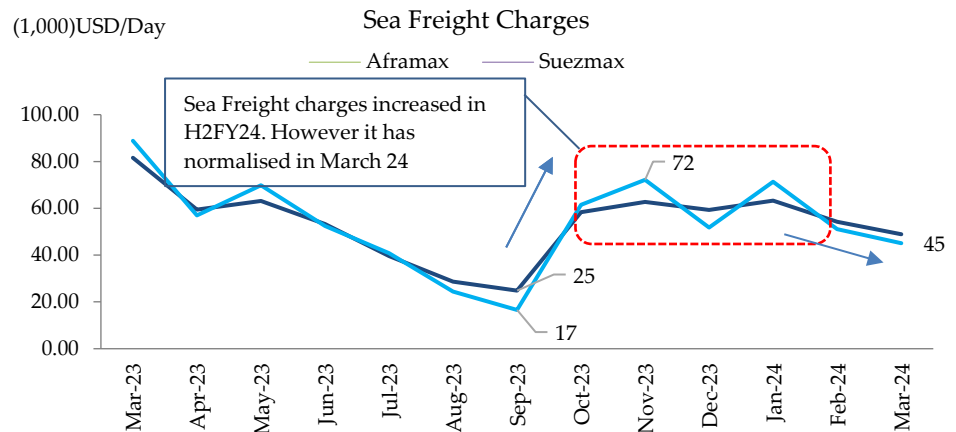
Source: Bloomberg, HSIE research

Exhibit 11: Coal prices moderated in H2FY24.



Source: CoalMint, HSIE research

Exhibit 12: Sea Freight trend



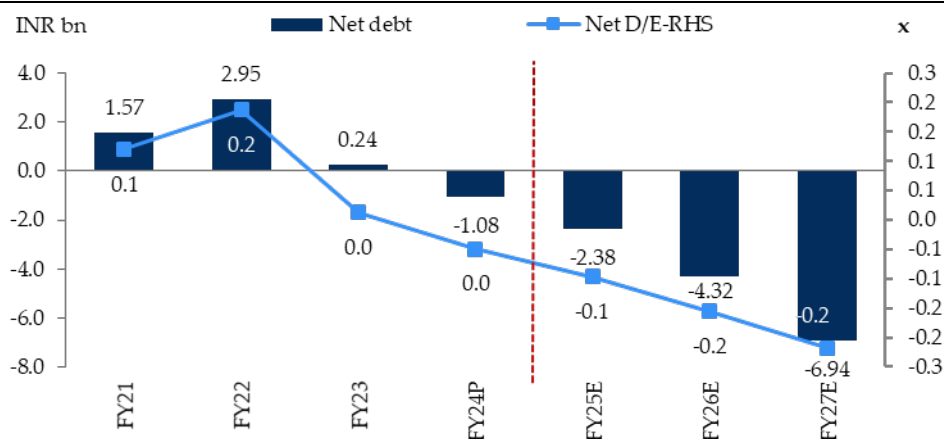
Source: CMIE, HSIE research

Net cash business, FCF generation of INR4.87 mn over FY25-26

The company has net cash of INR 1.1bn as of FY24 end. During FY24, the company generated operating cash flow operations of INR 3bn. It incurred capex of INR1.69bn in FY24. The company generated a free cash flow of INR 1.31bn in FY24.

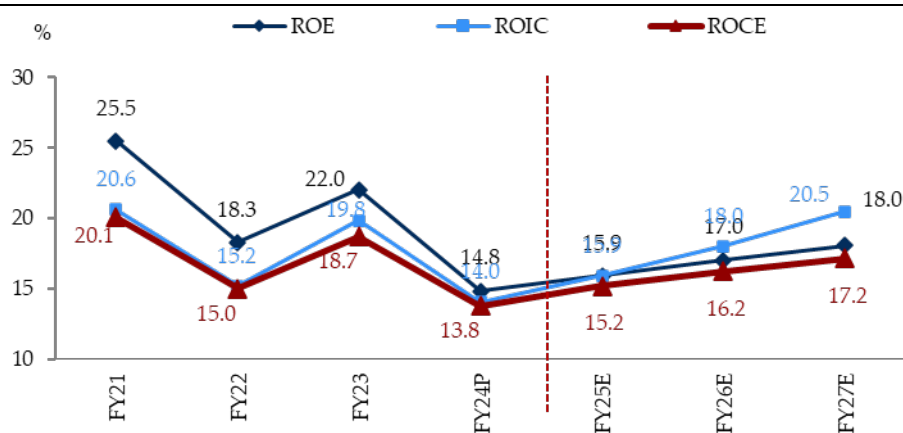
We are expecting an operating cash flow of INR7.27 mn over FY25-FY26 and a free cash flow of INR4.87 mn. We do not expect a major capex announcement by the company, at least in FY25.

Exhibit-13 : Net debt and Net D/E



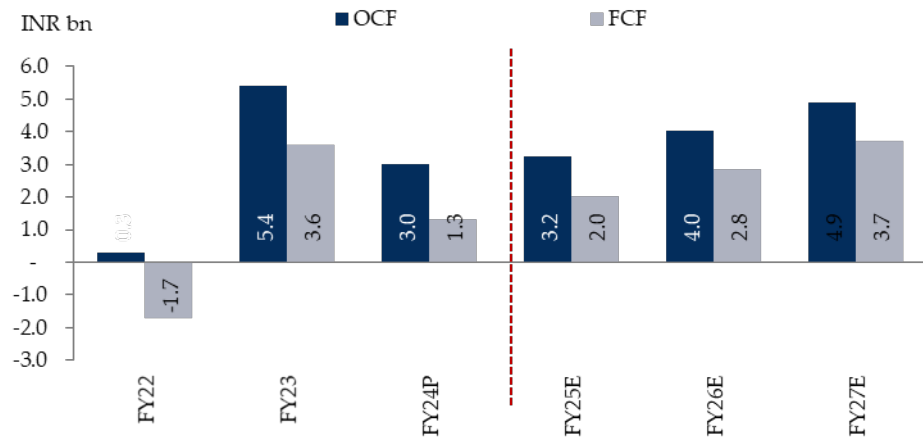
Source: Company, HSIE research

Exhibit-14: Return ratios are likely to improve in FY25/ FY26



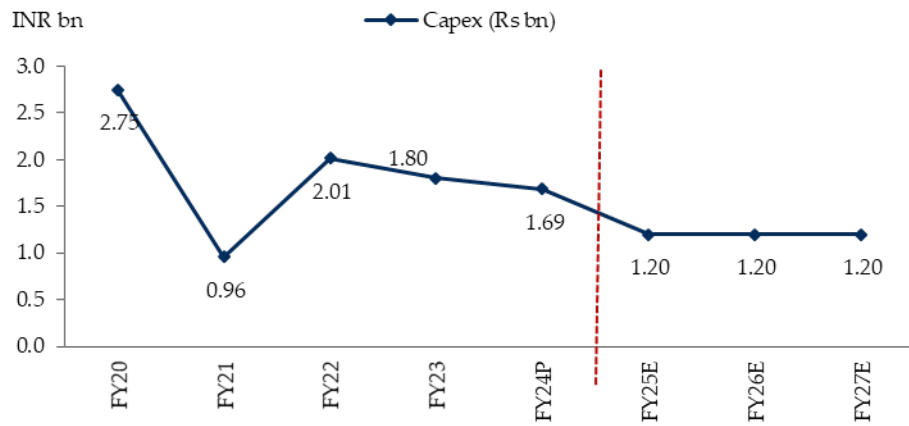
Source: Company, HSIE research

Exhibit-15: OCF/FCF



Source: Company, HSIE Research

Exhibit-16: Moderate Capex going ahead



Source: Company, HSIE Research

Financials (Consolidated)

INCOME STATEMENT

Rs bn	FY20	FY21	FY22	FY23	FY24P	FY25E	FY26E	FY27E
Revenues	25.96	27.84	36.86	44.45	37.94	42.35	47.54	53.20
<i>Growth %</i>	<i>(6.0)</i>	<i>7.2</i>	<i>32.4</i>	<i>20.6</i>	<i>(14.6)</i>	<i>11.6</i>	<i>12.2</i>	<i>11.9</i>
Raw Material	17.15	17.75	25.89	31.00	25.78	28.78	32.38	36.14
Employee Cost	1.78	2.04	2.12	2.48	2.75	3.06	3.38	3.72
Other Expenses	3.34	3.57	4.85	5.29	4.79	4.98	5.23	5.59
EBITDA	3.69	4.49	4.01	5.68	4.62	5.54	6.56	7.75
<i>EBITDA Margin (%)</i>	<i>14.2</i>	<i>16.1</i>	<i>10.9</i>	<i>12.8</i>	<i>12.2</i>	<i>13.1</i>	<i>13.8</i>	<i>14.6</i>
<i>EBITDA Growth %</i>	<i>4.4</i>	<i>21.7</i>	<i>(10.7)</i>	<i>41.8</i>	<i>(18.7)</i>	<i>19.8</i>	<i>18.4</i>	<i>18.2</i>
Depreciation	0.62	0.74	0.71	0.83	1.00	1.09	1.17	1.24
EBIT	3.07	3.75	3.30	4.85	3.62	4.45	5.39	6.51
Other Income (Including EO Items)	0.06	0.11	0.13	0.10	0.35	0.38	0.41	0.43
Interest	0.24	0.13	0.13	0.22	0.2	0.22	0.22	0.22
PBT	2.89	3.72	3.29	4.73	3.75	4.61	5.57	6.73
Tax	0.58	0.70	0.67	0.92	0.74	0.92	1.11	1.35
RPAT	2.30	3.02	2.63	3.81	3.01	3.68	4.46	5.38
EO (Loss) / Profit (Net Of Tax)	0.06	-	-	-	-	-	-	-
APAT	2.24	3.02	2.63	3.81	3.01	3.68	4.46	5.38
<i>APAT Growth (%)</i>	<i>17.5</i>	<i>34.7</i>	<i>(13.0)</i>	<i>45.0</i>	<i>(20.9)</i>	<i>22.2</i>	<i>21.0</i>	<i>20.7</i>
AEPS (Rs)	65.0	85.2	74.1	107.5	85.0	103.9	125.7	151.8
<i>AEPS Growth %</i>	<i>20.6</i>	<i>31.1</i>	<i>(13.0)</i>	<i>45.0</i>	<i>(20.9)</i>	<i>22.2</i>	<i>21.0</i>	<i>20.7</i>

Source: Company, HSIE Research

BALANCE SHEET

INR bn	FY20	FY21	FY22	FY23	FY24P	FY25E	FY26E	FY27E
SOURCES OF FUNDS								
Share Capital	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Reserves And Surplus	10.32	12.66	15.39	18.47	21.44	24.17	27.47	31.46
Total Equity	10.68	13.01	15.74	18.83	21.79	24.52	27.83	31.82
Long-term Debt	1.17	0.77	0.80	0.89	0.46	0.44	0.44	0.44
Short-term Debt	2.56	1.91	2.86	1.83	0.86	0.86	0.86	0.86
Total Debt	3.72	2.68	3.66	2.72	1.32	1.29	1.29	1.29
Deferred Tax Liability	0.24	0.23	0.25	0.28	0.30	0.33	0.36	0.39
Long-term Provision and others	0.34	0.27	0.56	0.55	0.57	0.68	0.80	0.95
TOTAL SOURCES OF FUNDS	14.98	16.20	20.22	22.37	23.98	26.82	30.28	34.46
APPLICATION OF FUNDS								
Net Block	7.48	7.12	7.60	9.23	9.73	10.23	10.25	10.21
Capital WIP	0.66	1.24	2.05	1.39	1.59	1.20	1.20	1.20
LT Loans And Advances and others	0.63	0.56	0.64	0.70	0.81	0.89	0.98	1.07
Total Non-current Investments	-	-	-	-	-	-	-	-
Inventories	3.25	4.28	7.12	6.46	5.56	6.28	7.07	7.89
Debtors	4.39	4.69	6.38	6.15	5.93	6.62	7.43	8.32
Cash and Cash Equivalent	0.55	1.11	0.71	2.48	2.39	3.67	5.61	8.23
Other Current Assets	1.16	1.50	1.49	0.94	3.14	3.50	3.93	4.40
Total Current Assets	9.35	11.58	15.70	16.02	17.02	20.08	24.04	28.83
Creditors	2.73	3.77	5.19	4.30	4.46	4.98	5.59	6.25
Other Current Liabilities & Provns	0.40	0.52	0.60	0.67	0.71	0.59	0.60	0.60
Total Current Liabilities	3.14	4.29	5.79	4.97	5.17	5.57	6.19	6.86
Net Current Assets	6.22	7.28	9.91	11.05	11.85	14.51	17.85	21.98
TOTAL APPLICATION OF FUNDS	14.98	16.20	20.22	22.37	23.98	26.82	30.28	34.46

Source: Company, HSIE Research

CASH FLOW STATEMENT

INR bn	FY20	FY21	FY22	FY23	FY24P	FY25E	FY26E	FY27E
Reported PBT	2.89	3.72	3.29	4.73	3.75	4.61	5.57	6.73
Non-operating & EO Items	(0.06)	(0.11)	(0.13)	(0.10)	(0.35)	(0.38)	(0.41)	(0.43)
Interest Expenses	0.24	0.13	0.13	0.22	0.22	0.22	0.22	0.22
Depreciation	0.62	0.74	0.71	0.83	1.00	1.09	1.17	1.24
Working Capital Change	(0.46)	(0.50)	(3.03)	0.63	(0.88)	(1.38)	(1.41)	(1.50)
Tax Paid	(0.58)	(0.70)	(0.67)	(0.92)	(0.74)	(0.92)	(1.11)	(1.35)
OPERATING CASH FLOW (a)	2.65	3.29	0.31	5.39	3.00	3.24	4.04	4.91
Capex	(2.75)	(0.96)	(2.01)	(1.80)	(1.69)	(1.20)	(1.20)	(1.20)
Free Cash Flow (FCF)	(0.10)	2.33	(1.70)	3.59	1.31	2.04	2.84	3.71
Investments	-	-	-	-	-	-	-	-
Non-operating Income	0.06	0.11	0.13	0.10	0.35	0.38	0.41	0.43
Others	0.15	(0.08)	0.31	0.02	0.04	0.14	0.16	0.19
INVESTING CASH FLOW (b)	(2.53)	(0.93)	(1.58)	(1.69)	(1.29)	(0.68)	(0.63)	(0.58)
Debt Issuance/(Repaid)	0.75	(1.04)	0.98	(0.94)	(1.40)	(0.02)	-	-
Interest Expenses	(0.24)	(0.13)	(0.13)	(0.22)	(0.22)	(0.22)	(0.22)	(0.22)
FCFE	0.41	1.15	(0.85)	2.43	(0.31)	1.79	2.61	3.49
Share Capital Issuance	-	-	-	-	-	-	-	-
Dividend	(0.60)	(0.64)	(0.64)	(0.78)	(0.78)	(0.95)	(1.15)	(1.39)
Others	0.27	0.02	0.65	(0.00)	0.62	(0.08)	(0.09)	(0.10)
FINANCING CASH FLOW (c)	0.18	(1.79)	0.87	(1.94)	(1.79)	(1.27)	(1.46)	(1.71)
NET CASH FLOW (a+b+c)	0.29	0.57	(0.40)	1.76	(0.08)	1.28	1.94	2.62
EO Items, Others	-	-	-	-	-	-	-	-
Closing Cash & Equivalents	0.55	1.11	0.71	2.48	2.39	3.67	5.61	8.23

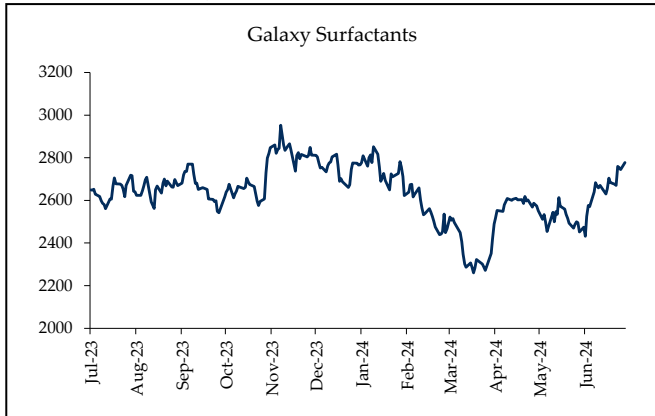
Source: Company, HSIE Research

KEY RATIOS

Ratios	FY20	FY21	FY22	FY23	FY24P	FY25E	FY26E	FY27E
PROFITABILITY %								
EBITDA Margin	14.2	16.1	10.9	12.8	12.2	13.1	13.8	14.6
EBIT Margin	11.8	13.5	8.9	10.9	9.6	10.5	11.3	12.2
APAT Margin	8.6	10.9	7.1	8.6	7.9	8.7	9.4	10.1
RoE	23.1	25.5	18.3	22.0	14.8	15.9	17.0	18.0
RoIC	18.6	20.6	15.2	19.8	14.0	15.9	18.0	20.5
RoCE	17.9	20.1	15.0	18.7	13.8	15.2	16.2	17.2
EFFICIENCY								
Tax Rate %	20.2	18.8	20.2	19.4	19.7	20.0	20.0	20.0
Fixed Asset Turnover (x)	2.1	2.2	2.7	2.7	2.1	2.2	2.3	2.4
Inventory (days)	46	56	70	53	53	54	54	54
Debtor (days)	62	61	63	50	57	57	57	57
Other Current Assets (days)	16	20	15	8	30	30	30	30
Payables (days)	38	49	51	35	43	43	43	43
Other Current Liab & Provns (days)	6	7	6	6	7	5	5	4
Cash Conversion Cycle (days)	80	81	91	70	91	93	94	94
Net Debt/EBITDA (x)	0.86	0.35	0.74	0.04	(0.23)	(0.43)	(0.7)	(0.9)
Net D/E	0.3	0.1	0.2	0.0	(0.0)	(0.1)	(0.2)	(0.2)
Interest Coverage	12.9	27.9	25.7	22.3	16.2	20.2	24.5	29.6
PER SHARE DATA (Rs)								
EPS	65.0	85.2	74.1	107.5	85.0	103.9	125.7	151.8
CEPS	80.8	106.1	94.2	131.0	113.2	134.7	158.8	186.8
Dividend	14.0	18.0	18.0	22.0	22.0	26.9	32.5	39.3
Book Value	301.2	367.1	444.1	531.0	614.7	691.8	785.0	897.5
VALUATION								
P/E (x)	42.8	32.7	37.6	25.9	32.7	26.8	22.1	18.3
P/Cash EPS (x)	34.5	26.3	29.6	21.3	24.6	20.7	17.5	14.9
P/BV (x)	9.2	7.6	6.3	5.2	4.5	4.0	3.5	3.1
EV/EBITDA (x)	25.9	21.6	23.9	17.3	21.6	18.3	15.7	13.6
EV/Revenue (x)	3.7	3.5	2.6	2.2	2.6	2.4	2.2	2.0
Dividend Yield (%)	0.5	0.6	0.6	0.8	0.8	1.0	1.2	1.4
OCF/EV (%)	2.8	3.4	0.3	5.5	3.0	3.2	3.9	4.6
FCFE/EV (%)	(0.1)	2.4	(1.8)	3.6	1.3	2.0	2.8	3.5
FCFE/M Cap (%)	(0.1)	2.4	(1.7)	3.6	1.3	2.1	2.9	3.8

Source: Company, HSIE Research

1 Yr Price History



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

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