

# Galaxy Surfactants

## Speciality Care performing well

Our BUY recommendation on GALSURF with a price target of INR 2,750 is premised on (1) stickiness of business as 55% of the revenue mix comes from MNCs, (2) stable EBITDA margin at >12% since fluctuations in raw material costs (RMC) are easily passed on to customers, and (3) strong return ratios (RoE/RoIC of 23/23% in FY23E). 3Q EBITDA/APAT was 16/32% higher than estimates due to lower-than-expected raw material costs and opex, higher-than-anticipated other income and lower-than-anticipated tax outgo.

- Revenue:** 3Q revenue was INR 7bn -6/+8% QoQ/YoY, on account of better sales volumes in both Performance Surfactants and Speciality Care business, and a better sales mix.
- Margins:** Gross margin jumped by 144/511bps QoQ/YoY to 37.7% on the back of improving share of specialities, new products mix and higher capacity utilisations. EBITDAM grew 80/458bps QoQ/YoY to 17.7% in 3Q.
- Volumes:** Total volumes in 3Q came at 58kT (-8/+7% QoQ/YoY). Performance Surfactants (63% of volume mix) volumes were at 37kT (-12/+5% QoQ/YoY) and Speciality Care volumes came to 22kT (+0/+12% QoQ/YoY). Speciality Care made a strong comeback and registered YoY growth for the first time in a quarter. Growth was driven by both the segments across geographies in 3Q. India's market grew 14.4% YoY, AMET grew 2.9% YoY and Rest of the World grew 4.3% YoY in 3Q.
- Concall takeaways:** (1) Out of the Capex plan of INR 1.5bn to be spent in FY21, INR 0.75bn to be spilled over to FY22 due to COVID-19 led disruptions. Capex guidance for FY22 at INR 1.0-1.5bn. (2) 5% of the revenues in 3Q came from sulphate free surfactants, proteins and other new products. (3) Volume growth guidance given of 5-8% YoY for medium term. (4) The Board has declared an interim dividend of INR 14 per equity share for FY21.
- Change in estimates:** We raise our FY21/22 EPS estimates by 12.5/8.6% to INR 87.8/101.7 to account overall performance in 9MFY21.
- DCF-based valuation:** Our price target is of INR 2,750 (WACC 10%, Terminal growth 3.5%). The stock is trading at 19.8x FY23E EPS.

### Financial Summary (Consolidated)

INR mn	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	6,747	7,187	(6.1)	6,259	7.8	27,630	25,964	27,432	32,311	35,860
EBITDA	1,195	1,215	(1.7)	821	45.4	3,534	3,689	4,641	5,283	5,928
APAT	852	817	4.3	480	77.6	1,910	2,244	3,111	3,606	4,094
AEPS (INR)	24.0	23.1	4.3	13.5	77.6	53.9	65.0	87.8	101.7	112.3
P/E (x)						41.3	34.2	25.4	21.9	19.8
EV/EBITDA(x)						21.6	20.5	16.7	14.8	13.5
RoE (%)						23.9	23.1	26.1	24.8	23.3

Source: Company, HSIE Research

### Change in estimates (Consolidated)

YE Mar	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR bn)	4.21	4.64	10.3	4.92	5.28	7.3	5.64	5.93	5.2
Adj. EPS (INR/sh)	78.0	87.8	12.5	93.7	101.7	8.6	105.9	112.3	6.0

Source: Company, HSIE Research

## BUY

CMP (as on 9 Feb 2021)	INR 2,233
Target Price	INR 2,750
NIFTY	15,109

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,600	INR 2,750
EPS %	FY21E +12.5%	FY22E +8.6%

### KEY STOCK DATA

Bloomberg code	GALSURF IN
No. of Shares (mn)	35
MCap (Rs bn) / (\$ mn)	79/1,087
6m avg traded value (Rs mn)	84
52 Week high / low	Rs 2,381/975

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	30.8	30.3	37.2
Relative (%)	10.3	(4.6)	12.5

### SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	70.93	70.93
FIs & Local MFs	13.42	12.98
FPIs	3.21	3.49
Public & Others	12.44	12.60
Pledged Shares	0.0	0.0

Source: BSE

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