



## Favourable mix drives performance

We maintain a BUY rating with our target price of Rs. 3,477 (Rs.2,936). The company's performance came in ahead of our expectation, with a strong recovery in speciality volumes in H2. The company reported overall volume growth of 8.4% YoY. The management reiterated volume growth guidance of 6-8% as the company remains confident of demand recovery in the speciality care segment post-Covid while performance segment volumes are expected to be robust due to structural change in consumer behaviour due to Covid. Given the company is at the forefront of innovation and a powerful Oleochemicals portfolio the company is well-positioned for the surge in oleochemicals to replace harmful petrochemicals. Further, its products span across the HPC segments from mass to mass-tige to prestige. Long-term strategic partnerships with global MNCs, local and regional players provide formidable entry barriers, and hence revenue stability and potential to expand its product lines. Given the current performance and strong commentary we increase our EPS target for FY22E and FY23E by 10% and 15% respectively (Link to our IC- [Galaxy Surfactant IC](#))

- Robust revenue growth-** Galaxy posted revenue growth of 19% YoY to Rs.7,835, on account of better sales volumes in both Performance Surfactants and Specialty Care business and better sales mix. Performance Surfactants volume stood at 41,712 MT for Q4FY21, up by 7.4% YoY, while Specialty Care Products volume stood at 21,295 MT for Q4FY21, up by 10.5% YoY. Overall volumes grew by 8.4% YoY.
- One-off Expenses impact OPM-** the company gross margins expanded by 10bps YoY to 36.5%, while OPM contracted by 60bps YoY to 15%. Margins were impacted by higher operating overhead, the company had seen an impact of Rs.150mn on account of lower export incentive and one-time provision, and higher employee cost. Overall EBITDA grew by 14% YoY to Rs.1,174mn.
- Growth Trickle downs to PAT-** PAT for the quarter grew by 25% YoY to Rs.786.8mn, driven by higher other income and lower interest cost.
- Valuation and rating:** We assign a PE multiple of 31x (premium to other chemical companies as discussed above) on FY23E earnings of Rs112 (Rs. 97.9) post which we arrive at a target of Rs.3,477, an upside of 15% from the current levels. The company's performance during the quarter was driven by strong realization growth in performance surfactants coupled with strong volume uptake in the AMET region. Speciality care volumes are expected to see recovery as supply chain issues normalize. New product launches are expected to further drive growth. We continue to remain positive about the long term prospects of the company.

Consolidated (Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Net Sales	7,835	6,567	19.32%	6,747	16%
Raw Material (net)	4,972	4,178	19.01%	4,200	18%
Employee Cost	589	465	26.64%	491	20%
Other expenses	1,100	897	22.64%	861	28%
EBITDA	1,174	1,026	14.38%	1,195	-2%
EBITDA margin	15.0%	15.6%	-60bps	17.7%	-270bps
Depreciation	240	155	54.74%	169	42%
Finance Costs	30	56	-46.58%	24	22%
Other Income	26	0	25700.00%	30	-15%
Exceptional Item	0	0		0	
PBT	930	816	14.02%	1,032	-10%
Tax	143	188	-23.64%	180	-20%
Adj. PAT	787	628	25.29%	852	-8%

Source: MNCL Research

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY19	27,630	13.5%	3,472	12.6%	1,909	24.5%	53.9	23.9%	27.4%	43.2	24.4
FY20	25,964	-6.0%	3,674	14.2%	2,304	20.7%	65.0	23.7%	23.9%	35.8	23.2
FY21E	27,841	7.2%	4,488	16.1%	3,021	31.1%	85.2	23.2%	25.7%	35.5	24.1
FY22E	31,682	13.8%	5,199	16.4%	3,344	10.7%	94.3	21.5%	28.4%	32.0	20.6
FY23E	35,025	10.6%	6,024	17.2%	3,976	18.9%	112.2	21.6%	29.7%	27.0	17.4

Source: MNCL Research Estimates

Target Price	3,477	Key Data
CMP*	3,023	Bloomberg Code GALSURF IN
Upside	15%	Curr Shares O/S (mn) 35.5
Price Performance (%)		Diluted Shares O/S (mn) 35.5
		Mkt Cap (Rsbn/USDmn) 10.7/1087.7
		52 Wk H / L (Rs) 3350/1207
		5 Year H / L (Rs) 3350/885
GALSURF IN	5% 57% 123%	Daily Vol. (3M Avg.) 2710.5
NIFTY	5% 16% 56%	

Source: ACE Equity, Bloomberg, MNCL Research

### Shareholding pattern (%)

	Mar-21	Dec-20	Sept-20	Jun-20
Promoter	70.93	70.93	70.93	70.93
FIIIs	3.42	3.49	3.21	3.09
DIIIs	13.19	12.92	12.88	12.82
Others	12.46	12.66	12.12	13.16

Source: BSE

### Strong FCF Generation (Rs mn)



Source: MNCL Research

### Earnings Revision

Particulars (Rs mn)	FY22E			FY23E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	31,682	29,942	5.8%	35,025	32,477	7.8%
EBITDA	5,199	4,795	8.4%	6,024	5,359	12.4%
PAT	3,344	3,041	10.0%	3,976	3,469	14.6%

Source: MNCL Research Estimates

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## Management call update

- **Near term moderation likely in per tonne gross margins** -: Management highlighted that high raw material prices (LABSA, LA) would start hitting the margins in the near term; due to uncertainty in demand, the company might not be able to take price hikes. Further, it was reiterated to exceed the long term per tonne EBITDA margin guidance of INR 16,000-18,000/MT.
- **Speciality chemicals drive 10% growth while increased prices drive surfactant revenues In Q4FY21**- overall volume growth of 8% YoY was led by 7% YoY growth in surfactant while speciality chemicals posted 20% YoY volume growth. Realisation increased sharply by 16% in surfactant as fatty alcohol prices continued to harden. Fatty alcohol prices increased to USD2,073/mt in Q4FY21 from USD1,270/mt in Q4FY21. As fatty alcohol prices continue to rise, the company is confident of passing on higher input cost to end customers.
- **6-8% long-term volume growth guidance remains intact**: Management re-iterated long volume growth guidance of 6-8% as the company remains confident of demand recovery in speciality care segment post-Covid while performance segment volumes are expected to be robust due to structural change in consumer behaviour due to Covid. For speciality care, the major revenue contributor is the rest of the world while India's contribution remains at ~15%.
- **CAPEX**- Management has highlighted that CAPEX for the speciality care segment has been further delayed by 6 months and the unit will be commercialised by 4QFY22. Delay has been mainly on account of the unavailability of manpower. Further, management has guided for CAPEX of INR 1.5bn p.a. FY22 onwards.
- **Subsidiaries** – Egypt and Tri-K performed strongly in the current year, the performance of both the subsidiaries, Egypt and Tri-K were strong. As the Egyptian market has picked up sharply posting strong volume growth, higher speciality chemicals volume, mainly in H2FY21 boosted Tri-K performance.

## High Entry Barriers= Premium Multiple

Since its inception in 1986, Galaxy has followed certain principles such as: (1) focus on a single customer category – hence consumer care ingredients; (2) green – mostly oleo-chemicals; and (3) investment into R&D – despite being in emerging markets, it has ~35% of revenues coming from speciality care products, and supplies to mature markets such as Europe and the US.

The company is a leading manufacturer of surfactants in India with a strong global presence (produces 200+ products, serving 170+ customers across 75 countries). Galaxy's ability to provide end-to-end solutions to the HPC value chain, offer customized solutions and adhere to high-quality standards has helped it retain customer stickiness.

Galaxy's customers operate within the consumer-centric personal & home care segments where a number of its products enjoy a strong position in the ingredients value chain. Accordingly, it benefits from high growth in the FMCG industry, which is largely unaffected by economic cycles. The lifecycle of its customers is linked to that of customers' product, which may be several years or even decades in the case of some products.

The business model involves working closely with customers in innovating and developing technologies that can be applied effectively to enhance operational efficiency and performance of the customer's end products. Thus, the technical & specialized nature of the business, sustained R&D, meeting prequalification, stringent quality benchmarks and certification serve as entry barriers to new players in the market. Product approval in the case of certain products can be less than a year, in certain cases one-two years and even more for certain products. As a result, customers are particularly sticky.

Going forward, we estimate 5% and 12% volume and revenue CAGR, respectively, over FY21-23E, driven by traction in new launches in the speciality product care business, increased utilization of ramped up capacity in performance surfactants (recent commissioning), and expected growth in emerging markets, likely supported by pick up in the domestic market. We expect EBITDA/t to improve to Rs21,346/t in FY23E, with 108bps improvement in EBITDA margin to 17.2% over FY19-23E, driven by increasing contribution from speciality care products and positive operating leverage. Overall EBITDA is expected to post a growth of 16% over FY21-23 to Rs6,024mn. We expect the company to post a PAT growth of 15% over FY20-23E to Rs3,976mn. Strong operating leverage along with lower interest cost is likely to aid PAT growth.

We believe Galaxy deserves a higher valuation multiple compared to other chemical companies due to its higher return ratios and strong visibility on earnings growth. The company is also not exposed to the otherwise general risks faced by chemical companies, such as commodity price fluctuations and cyclicity.

Hence, we assign a PE multiple of 31x (premium to other chemical companies as discussed above) on FY23E earnings of Rs 112 post which we arrive at a target of Rs3,477, an upside of 15% from current levels. While current and attributed valuations may appear demanding, we strongly believe they are justified given the above-mentioned prospects.

P/E Valuation		FY23E
EPS (Rs)		112.1614
P/E (x)		31
<b>Fair Value/share (Rs)</b>		<b>3,477</b>
EV/EBITDA Valuation		FY23E
EBITDA (Rs mn)		6,024.3
Ascribed EV/EBITDA (x)		20
EV (Rs mn)		1,20,485
Add: Net Cash (Rs mn)		1,537
Fair value mkt cap (Rs mn)		1,22,023
No. of shares (mn)		35.45
<b>Fair Value/share (Rs)</b>		<b>3442</b>

## Quarterly Financials and Key Performance Indicators

### Exhibit 6: Quarterly Financials

Y/E March (Rs mn)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	Q4FY21
<b>Particulars</b>									
Net sales	6,820	6,650	6,488	6,259	6,567	6,072	7,187	6,747	7,835
Cost of Raw materials consumed	4,662	4,428	4,330	4,216	4,178	3,995	4,577	4,200	4,972
Staff cost	427	446	438	432	465	463	498	491	589
Other operational expenses	778	815	840	789	897	709	896	861	1,100
<b>Operating Profit (Core EBITDA)</b>	<b>953</b>	<b>961</b>	<b>880</b>	<b>821</b>	<b>1,026</b>	<b>905</b>	<b>1,215</b>	<b>1,195</b>	<b>1,174</b>
Depreciation	129	149	154	164	155	164	167	169	240
<b>EBIT</b>	<b>824</b>	<b>812</b>	<b>727</b>	<b>657</b>	<b>871</b>	<b>740</b>	<b>1,048</b>	<b>1,026</b>	<b>934</b>
Interest	79	60	64	58	56	48	32	24	30
Other Revenue/Income	35	13	13	34	0	7	46	30	26
<b>Profit Before Tax</b>	<b>780</b>	<b>765</b>	<b>675</b>	<b>632</b>	<b>816</b>	<b>699</b>	<b>1,062</b>	<b>1,032</b>	<b>930</b>
Tax	209	239	5	152	188	134	245	180	143
<b>Profit After Tax</b>	<b>571</b>	<b>526</b>	<b>671</b>	<b>480</b>	<b>628</b>	<b>565</b>	<b>817</b>	<b>852</b>	<b>787</b>
<b>Growth (%)</b>									
Revenue	6%	-7%	-5%	-8%	-4%	-9%	11%	8%	19%
EBITDA	36.4%	8.3%	1.3%	-0.4%	7.7%	-5.9%	38.0%	45.4%	14.4%
PAT	43%	15%	45%	15%	10%	7%	22%	78%	25%
<b>Margin (%)</b>									
EBITDA	14%	14%	14%	13%	16%	NA	17%	18%	15%
EBIT	12%	12%	11%	10%	13%	NA	15%	15%	12%
PAT	8%	8%	10%	8%	10%	NA	11%	13%	10%

Source: Company, MNCL Research

## Financials (Consolidated)

### Exhibit 7: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Revenues</b>	<b>18,014</b>	<b>21,613</b>	<b>24,339</b>	<b>27,630</b>	<b>25,964</b>	<b>27,841</b>	<b>31,682</b>	<b>35,025</b>
Materials cost	12,000	15,260	17,511	19,481	17,153	17,746	20,402	22,066
<i>% of revenues</i>	<i>67%</i>	<i>71%</i>	<i>72%</i>	<i>71%</i>	<i>66%</i>	<i>64%</i>	<i>64%</i>	<i>63%</i>
Employee cost	1,444	1,416	1,460	1,604	1,781	2,040	2,160	2,452
<i>% of revenues</i>	<i>8%</i>	<i>7%</i>	<i>6%</i>	<i>6%</i>	<i>7%</i>	<i>7%</i>	<i>7%</i>	<i>7%</i>
Others	2,250	2,225	2,491	3,073	3,356	3,566	3,922	4,483
<i>% of revenues</i>	<i>12%</i>	<i>10%</i>	<i>10%</i>	<i>11%</i>	<i>13%</i>	<i>13%</i>	<i>12%</i>	<i>13%</i>
<b>EBITDA</b>	<b>2,320.0</b>	<b>2,713.5</b>	<b>2,877.1</b>	<b>3,472.3</b>	<b>3,673.9</b>	<b>4,488.3</b>	<b>5,198.7</b>	<b>6,024.3</b>
<b>EBITDA margin (%)</b>	<b>12.88%</b>	<b>12.55%</b>	<b>11.82%</b>	<b>12.57%</b>	<b>14.15%</b>	<b>16.12%</b>	<b>16.41%</b>	<b>17.20%</b>
Depreciation & Amortisation	452.2	471.6	485.3	512.0	621.9	739.5	775.6	830.6
<b>EBIT</b>	<b>1,868</b>	<b>2,242</b>	<b>2,392</b>	<b>2,960</b>	<b>3,052</b>	<b>3,749</b>	<b>4,423</b>	<b>5,194</b>
Interest expenses	311.9	272.2	305.5	300.0	238.0	134.2	74.8	32.3
<b>PBT from operations</b>	<b>1,556</b>	<b>1,970</b>	<b>2,086</b>	<b>2,660</b>	<b>2,814</b>	<b>3,615</b>	<b>4,348</b>	<b>5,161</b>
Other income	58.7	104.5	101.4	108.2	74.4	108.6	110.0	140.1
Exceptional items	-	-	-	-	-	-	-	-
<b>PBT</b>	<b>1,615</b>	<b>2,074</b>	<b>2,188</b>	<b>2,769</b>	<b>2,888</b>	<b>3,723</b>	<b>4,458</b>	<b>5,301</b>
Taxes	603	598	654	859	584	702	1,115	1,325
<i>Effective tax rate (%)</i>	<i>37%</i>	<i>29%</i>	<i>30%</i>	<i>31%</i>	<i>20%</i>	<i>19%</i>	<i>25%</i>	<i>25%</i>
<b>Reported PAT</b>	<b>1,011</b>	<b>1,476</b>	<b>1,534</b>	<b>1,909</b>	<b>2,304</b>	<b>3,021</b>	<b>3,344</b>	<b>3,976</b>
<b>Adjusted PAT</b>	<b>1,011</b>	<b>1,476</b>	<b>1,534</b>	<b>1,909</b>	<b>2,304</b>	<b>3,021</b>	<b>3,344</b>	<b>3,976</b>

## Exhibit 8: Key Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Growth Ratio (%)</b>								
Revenue	-3.8%	20.0%	12.6%	13.5%	-6.0%	7.2%	13.8%	10.6%
EBITDA	10.1%	12.9%	12.6%	11.8%	12.6%	14.2%	16.1%	16.4%
Adjusted PAT	0.0%	46.0%	3.9%	24.5%	20.7%	31.1%	10.7%	18.9%
<b>Margin Ratios (%)</b>								
EBITDA	12.9%	12.6%	11.8%	12.6%	14.2%	16.1%	16.4%	17.2%
PBT from operations	9.0%	9.6%	9.0%	10.0%	11.1%	13.4%	14.1%	15.1%
Adjusted PAT	5.6%	6.8%	6.3%	6.9%	8.9%	10.9%	10.6%	11.4%
<b>Return Ratios (%)</b>								
ROE	25.2%	29.0%	23.7%	23.9%	23.7%	23.2%	21.5%	21.6%
ROCE	23.2%	25.8%	24.5%	27.4%	23.9%	25.7%	28.4%	29.7%
ROIC	9.4%	13.1%	12.1%	13.8%	12.6%	15.3%	14.7%	15.0%
<b>Turnover Ratios (days)</b>								
Gross block turnover ratio (x)	2.3	2.6	2.8	2.8	2.2	2.3	2.2	2.3
Debtors	51	59	63	56	62	59	59	59
Inventory	48	54	52	46	46	46	46	46
Creditors	38	43	49	40	38	38	38	38
Cash conversion cycle	61	70	65	62	69	67	67	67
<b>Solvency Ratio (x)</b>								
Net debt-equity	0.7	0.5	0.4	0.3	0.3	0.1	0.1	(0.1)
Debt-equity	0.8	0.6	0.4	0.3	0.3	0.2	0.1	0.0
Interest coverage ratio	6.2	8.6	8.2	10.2	13.1	28.7	60.6	165.2
Gross debt/EBITDA	1.5	1.2	1.0	0.7	0.9	0.5	0.3	0.1
Current Ratio	1.3	1.4	1.5	1.6	1.6	1.9	2.5	3.2
<b>Per share Ratios (Rs)</b>								
Adjusted EPS	28.5	41.6	43.3	53.9	65.0	85.2	94.3	112.2
BVPS	124.6	162.2	202.8	247.3	301.2	367.1	437.9	518.6
CEPS	41.3	54.9	57.0	68.3	82.5	106.1	116.2	135.6
DPS	6	6	7	8	14	18.75	23.58	31.41
Dividend payout %	21%	14%	16%	15%	22%	22%	25%	28%
<b>Valuation (x)*</b>								
P/E (adjusted)	81.6	55.9	53.8	43.2	35.8	35.5	32.0	27.0
P/BV	17.6	13.5	10.8	8.9	7.3	6.0	5.0	4.2
EV/EBITDA	36.9	31.5	29.6	24.4	23.2	24.1	20.6	17.4
Dividend yield %	0.28%	0.28%	0.33%	0.38%	0.66%	0.88%	1.11%	1.48%

Source: Company, MNCL Research estimates

### Exhibit 9: Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>SOURCES OF FUNDS</b>								
Equity Share Capital	354.5	354.5	354.5	354.5	354.5	354.5	354.5	354.5
Reserves & surplus	4,063	5,395	6,833	8,413	10,323	12,660	15,167	18,030
<b>Shareholders' fund</b>	<b>4,417</b>	<b>5,749</b>	<b>7,188</b>	<b>8,767</b>	<b>10,678</b>	<b>13,014</b>	<b>15,522</b>	<b>18,385</b>
Total Debt	3470	3428	2992	2642	3538	2647	1878	1068
Def tax liab. (net)	187	253	277	320	241	233	233	233
<b>Total Liabilities</b>	<b>8,074</b>	<b>9,429</b>	<b>10,457</b>	<b>11,729</b>	<b>14,457</b>	<b>15,894</b>	<b>17,633</b>	<b>19,686</b>
Gross Block	7,860	8,435	8,742	9,954	11,541	11,961	14,101	15,101
Less: Acc. Depreciation	3,502	3,877	4,298	4,792	5,248	5,987	6,763	7,593
Net Block	4,358	4,535	4,444	5,162	6,294	5,974	7,339	7,508
Right to use					1,157	1,119	1,119	1,119
Capital WIP	508	103	249	826	660	1,240	400	400
Net Fixed Assets	4,865	4,638	4,693	5,988	8,111	8,332	8,857	9,027
Investments	-	-	-	-	58	435	435	435
Inventories	2,358	3,174	3,456	3,513	3,250	4,278	3,646	3,838
Sundry debtors	2,502	3,472	4,182	4,268	4,394	4,689	5,295	5,853
Cash	164	261	276	257	545	1,114	1,304	2,606
Loans & Advances	105	60	100	106	82	90	90	90
Other assets	1,011	1,268	1,847	1,549	1,680	1,557	2,080	2,295
Total Current Asset	6,139	8,234	9,861	9,692	10,009	12,163	12,849	15,117
Trade payables	1,856	2,523	3,278	3,059	2,731	3,770	3,125	3,454
Other current Liab.	1,007	898	778	851	893	745	863	918
Provisions	68	22	41	41	39	86	86	86
Net Current Assets	3,209	4,792	5,764	5,741	6,346	7,562	8,776	10,659
<b>Total Assets</b>	<b>8,074</b>	<b>9,429</b>	<b>10,457</b>	<b>11,729</b>	<b>14,457</b>	<b>15,894</b>	<b>17,633</b>	<b>19,686</b>

### Exhibit 10: Cash Flow

Y/E March (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Operating profit bef working capital changes	1,749	2,245	2,340	2,818	3,049	3,836	4,194	4,839
Trade and other receivables	(289)	(1,017)	(1,276)	278	35	(301)	(606)	(559)
Inventories	102	(864)	(283)	21	383	(1,078)	632	(193)
Trade payables	191	746	673	(288)	(304)	1,193	(645)	330
Changes in working capital	(51)	(1,135)	(886)	11	113	(186)	(570)	(475)
Direct taxes	(618)	(568)	(583)	(750)	(686)	(706)	(1,115)	(1,325)
<b>Cash flow from operations</b>	<b>1,698</b>	<b>1,110</b>	<b>1,454</b>	<b>2,829</b>	<b>3,162</b>	<b>3,651</b>	<b>3,624</b>	<b>4,364</b>
Net Capex	(617)	(444)	(569)	(1,689)	(1,416)	(1,075)	(1,301)	(1,000)
Others	27	19	24	16	(95)	(571)	(407)	(92)
<b>Cash flow from investments</b>	<b>(590)</b>	<b>(426)</b>	<b>(546)</b>	<b>(1,673)</b>	<b>(1,511)</b>	<b>(1,647)</b>	<b>(1,707)</b>	<b>(1,092)</b>
FCF	1,080	666	885	1,140	1,746	2,575	2,323	3,364
Issue of share capital	-	-	-	-	-	-	-	-
Increase/(decrease) in debt	-	(773)	(611)	533	718	(439)	-	-
dividend	-	-	-	-	-	-	-	-
<b>Cash flow from financing</b>	<b>(1,105)</b>	<b>(570)</b>	<b>(897)</b>	<b>(1,192)</b>	<b>(1,438)</b>	<b>(1,650)</b>	<b>(1,727)</b>	<b>(1,971)</b>
<b>Net change in cash</b>	<b>3</b>	<b>110</b>	<b>14</b>	<b>(20)</b>	<b>227</b>	<b>338</b>	<b>190</b>	<b>1,302</b>

Source: MNCL Research Estimates



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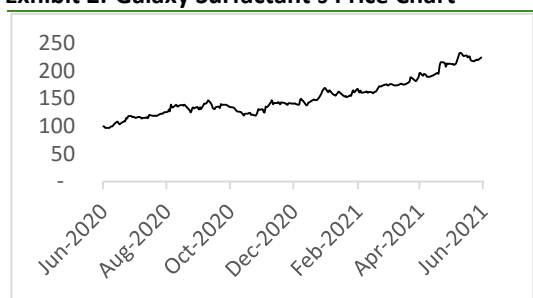
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### Exhibit 2: Galaxy Surfactant's Price Chart



Source: Bloomberg

Analyst holding in stock: **NO**

#### Key to MNCL Investment Rankings

Buy: Upside by >15%, Accumulate: Upside by 5% to 15%, Hold: Downside/Upside by -5% to +5%, Reduce: Downside by 5% to 15%, Sell: Downside by >15%

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