

09 August 2024

India | Equity Research | Q1FY25 results review

Galaxy Surfactants

Speciality Chemicals

Logistic issues restrict EBITDA/kg; volume growth in sweet spot

Galaxy Surfactants' (GSL) Q1FY25 EBITDA/kg stood at INR 19.4, down 6.7% YoY, below its guided range of INR 20-5-21.5 for FY25. However, company has retained the guidance with the possibility of achieving higher end of the guidance as traction in premium category and India market remains healthy; AMET is making a comeback. Freight cost marred the performance in Q1FY25 which should normalise/ passed-on soon, and may aid in EBITDA/kg improvement. GSL expects strong H2FY25 for specialty care products as customers are planning to launch premium products. It may also surpass volume guidance for FY25. Our earnings estimates remain unchanged but TP has been revised upwards to INR 2,870 (from INR 2,520), valuing GSL at a P/E multiple of 25x FY26E EPS (earlier 22x). Maintain **HOLD**.

Volume grew 8.0% YoY; faced transient headwinds

GSL's revenue increased 3.4% YoY to INR 9.7bn, affected by realisation dipping 4.2% to INR 152/kg amid lower input cost. However, the slouch in realisation, thus revenue, was partly offset by a recovery in premium (prestige) segment and volume rising 8.0% YoY to 64kte. Volume rose 8% YoY, within guidance of 6-8%; however, it could have been higher if not for logistic issues. AMET, particularly, was impacted by longer container delivery period by 30-40 days due to Red Sea issue and availability of shipment which is likely to ease from Oct'24. It has partly benefited by restocking in developed markets with improved demand.

AMET volume rose 4.9% YoY, and was restricted by logistic issues while underlying demand was good. India had weak Apr but strong May and Jun; volume grew only 2% YoY. Company remains hopeful of volume growth accelerating in coming quarters as FMCG companies have passed on price drop benefits to customer in the form of higher volumes, upcoming festive season and better monsoon. RoW volume grew strong 24.5% YoY with better growth in EU and LAT-AM markets, partly aided by restocking. GSL expects volume growth to remain healthy in RoW as many customers are planning for launch of premium products which has been delayed in past few quarters due to subdued demand. Performance surfactants' volume rose 5.5% YoY aided by growth in AMET and India; specialty care products volumes grew 13% YoY on recovery in RoW.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	44,452	37,944	40,497	41,503
EBITDA	5,683	4,622	5,546	6,065
EBITDA Margin (%)	12.8	12.2	13.7	14.6
Net Profit	3,810	3,015	3,695	4,066
EPS (INR)	107.5	85.0	104.2	114.7
EPS % Chg YoY	45.0	(20.9)	22.6	10.0
P/E (x)	27.8	35.2	28.7	26.1
EV/EBITDA (x)	15.9	18.9	15.5	13.8
RoCE (%)	19.1	13.0	14.6	14.4
RoE (%)	22.0	14.8	16.0	15.8

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Market Data

Market Cap (INR)	106bn
Market Cap (USD)	1,263mn
Bloomberg Code	GALSURF IN
Reuters Code	GALX NS
52-week Range (INR)	3,208 /2,241
Free Float (%)	29.0
ADTV-3M (mn) (USD)	0.9

Price Performance (%)	3m	6m	12m
Absolute	21.8	13.7	12.1
Relative to Sensex	11.8	2.4	(8.7)

Previous Reports

22-05-2024: [Q4FY24 results review](#)

10-04-2024: [Company Update](#)

GSL guides for volume growth of 6–8% for FY25, which it believes can be surpassed if India volume growth sustains at higher levels. AMET volume growth is likely in high single digit in FY25, and should grow faster as logistic situation normalises. India business is likely to grow in higher single digit as volume off-take accelerates for customers, and could also benefit from restocking. RoW to have double digit volume growth as company expands in different geographies, and its customers start launching newer premium products.

Gross profit/kg rise was restricted due to higher logistic costs

Gross profit was up 7.2% YoY to INR 3.3bn. Gross profit margin was 33.6% (+100bp QoQ), and gross profit per kg was INR 51 vs INR 50.4 in Q4FY24. The gross profit/kg expansion was restricted despite strong growth in RoW due to higher freight cost for input material which could not be immediately passed-on to customers, therefore, restricting EBITDA growth. EBITDA improved only 0.7% YoY to INR 1.2bn. EBITDA/kg stood at INR 19.4, down 6.7% YoY (+14% QoQ) in Q1FY25 – below its guidance of INR 20.5–21.5. Net profit improved by 6% YoY to INR 797, partly aided by lower tax rate at 19.4% (vs 21.8% in Q1FY24).

EBITDA/kg guidance retained at INR 20.5–21.5

Despite EBITDA/kg miss in Q1FY25, GSL has retained its guidance at INR 20.5–21.5 for FY25 as it believes volume growth in RoW/ specialty will sustain at higher rate, thereby, improving mix. Further, impact of freight cost is transient, and should normalise soon. It also expects H2FY25 to be better for specialty care products as new product launches by customers will help company in driving higher volumes and better margins.

Other highlights

- Lauryl alcohol prices have jumped 30% in the past one month, and looking up firm as oil prices have also increased. The company has robust risk framework to manage raw material price volatility; however, persistent higher prices dampen the demand.
- HUL's guidance of cutting palm oil consumption by 25% does not impact GSL; it does not have product offerings in soap segment.
- With specialty care products, preservatives, mild surfactants, non-toxic surfactants, proteins have done well in Q1FY25. The company expects good demand to sustain in premium category products.
- Specialty care products growth was driven by restocking (40%), new geographies and uptick in demand (60%).
- Company is in the process of putting up capacities in specialty care products, and some are in consideration for expansion.

Risks

Upside risk: Significant improvement in EBITDA/kg on ramp-up in prestige segment; faster than expected volume growth in specialty care products.

Downside risk: Deterioration of India volumes; continued turbulence in AMET.

Exhibit 1: Galaxy Surfactants – consolidated financials

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Revenue	9,418	9,831	9,405	9,290	9,741	4.9	3.4
Cost of Goods sold	6,367	6,738	6,415	6,259	6,470	3.4	1.6
Gross profit	3,051	3,093	2,990	3,031	3,271	7.9	7.2
Gross profit margin (%)	32.4	31.5	31.8	32.6	33.6		
Employee cost	713	646	676	720	769	6.9	7.9
Other expenses	1,106	1,198	1,189	1,295	1,261	(2.6)	14.0
Total expenses	1,819	1,844	1,865	2,014	2,030	0.8	11.6
EBITDA	1,232	1,249	1,125	1,017	1,241	22.1	0.7
EBITDA margin (%)	13.1	12.7	12.0	10.9	12.7		
Depreciation	238	247	251	262	266	1.3	11.6
EBIT	994	1,002	874	754	975	29.3	(1.9)
EBIT margin (%)	10.6	10.2	9.3	8.1	10.0		
Other income	25	27	64	239	54	(77.4)	116.9
Finance cost	57	54	59	54	40	(26.2)	(30.2)
PBT	962	975	878	940	989	5.3	2.9
Tax expenses	210	201	165	165	192	16.8	(8.4)
ETR (%)	21.8	20.6	18.8	17.5	19.4		
PAT	752	774	714	775	797	2.9	6.0
Net profit margin (%)	8.0	7.9	7.6	8.3	8.2		
EPS (INR)	21.2	21.8	20.1	21.9	22.5	2.9	6.0

Source: I-Sec research, Company data

Exhibit 2: Galaxy Surfactants (consolidated) – total volume rose 8.0% YoY

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Segmental volumes (te)							
Performance surfactants	39,625	H-SD Gwth	H-SD Gwth	Dip 5% YoY	5.5%		
Specialty care products	19,737	DD Gwth	L-DD Gwth	Grew 25% YoY	13%		
Total volumes (te)	59,362	65,093	64,084	60,079	64,111	6.7	8.0
Segmental volumes mix (%)							
Performance surfactants	66.8	-					
Specialty care products	33.2	-					

Source: I-Sec research, Company data, Note: SD - Single digit; DD - Double digit; H - High & L - Low

Exhibit 3: Galaxy Surfactants (consolidated) – RoW volume rose 24.5% YoY

%	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
AMET	Flat	H-SD Gwth	L-DD Gwth	Dip 12.5% YoY	2%
India	DD Gwth	DD Gwth	L-SD Gwth	Grew 4% YoY	4.9%
RoW	LSD Gwth	L-SD Gwth	H-SD Gwth	Grew 32% YoY	25.4%

Source: I-Sec research, Company data; Note: SD - Single digit; DD - Double digit; H - High & L - Low

Exhibit 4: Galaxy Surfactants' (consolidated) per-kg analysis

(INR /kg)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Revenue	159	151	147	155	152	(1.7)	(4.2)
Raw material cost	107	104	100	104	101	(3.1)	(5.9)
Gross profit	51.4	47.5	46.6	50.4	51.0	1.1	(0.7)
Operating cost	30.6	28.3	29.1	33.5	31.7	(5.5)	3.3
EBITDA	20.8	19.2	17.6	16.9	19.4	14.4	(6.7)

Source: Company data, I-Sec research

Exhibit 5: Galaxy Surfactants – standalone financials

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Revenue	6,529	7,133	6,734	7,057	6,775	(4.0)	3.8
Cost of Goods sold	4,625	5,160	4,809	5,067	4,794	(5.4)	3.7
Gross profit	1,904	1,973	1,925	1,990	1,981	(0.5)	4.0
Gross profit margin (%)	29.2	27.7	28.6	28.2	29.2		
Employee cost	393	369	393	395	440	11.6	12.2
Other expenses	701	729	742	890	880	(1.1)	25.6
Total expenses	1,093	1,098	1,135	1,285	1,320	2.8	20.8
EBITDA	811	874	790	705	660	(6.4)	(18.5)
EBITDA margin (%)	12.4	12.3	11.7	10.0	9.7		
Depreciation	156	156	157	158	162	2.3	3.9
EBIT	655	718	633	547	499	(8.9)	(23.9)
EBIT margin (%)	10.0	10.1	9.4	7.8	7.4		
Other income	70	39	87	44	10		
Finance cost	33	27	35	29	34	19.1	4.9
PBT	692	730	685	562	475	(15.6)	(31.5)
Tax expenses	175	180	169	142	119	(16.0)	(31.8)
ETR (%)	25.3	24.7	24.7	25.3	25.1		
PAT	517	550	516	420	355	(15.5)	(31.3)
Net profit margin (%)	7.9	7.7	7.7	6.0	5.2		

Source: I-Sec research, Company data

Exhibit 6: Galaxy Surfactants – international business (consolidated less standalone)

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Revenue	2,889	2,698	2,671	2,233	2,966	32.8	2.7
Cost of Goods sold	1,742	1,578	1,606	1,192	1,675	40.5	(3.8)
Gross profit	1,147	1,121	1,065	1,040	1,290	24.0	12.5
Gross profit margin (%)	39.7	41.5	39.9	46.6	43.5		
Employee cost	321	277	283	325	329	1.3	2.6
Other expenses	405	469	447	404	381	(5.9)	(6.0)
Total expenses	726	746	730	729	710	(2.7)	(2.2)
EBITDA	421	375	335	311	581	86.5	37.8
EBITDA margin (%)	14.6	13.9	12.5	13.9	19.6		
Depreciation	83	91	94	104	104	(0.3)	26.2
EBIT	339	284	241	207	477	130.3	40.6
EBIT margin (%)	11.7	10.5	9.0	9.3	16.1		
Other income	(45)	(12)	(23)	196	43.9		
Finance cost	24	27	24	25	6	(78.1)	(77.4)
PBT	269	245	193	377	515	36.5	91.2
Tax expenses	35	21	(5)	23	73	224.0	108.9
ETR (%)	13.0	8.4	(2.4)	6.0	14.2		
PAT	234	224	198	355	442	24.6	88.6
Net profit margin (%)	8.1	8.3	7.4	15.9	14.9		

Source: I-Sec research, Company data

Exhibit 7: Shareholding pattern

%	Dec '23	Mar '24	Jun '24
Promoters	70.9	70.9	70.9
Institutional investors	16.1	16.5	16.6
MFs and others	11.7	11.9	11.8
FIs/Banks	-	-	-
Insurance	0.5	0.7	0.9
FIIIs	3.9	3.9	3.9
Others	13.0	12.6	12.5

Source: Bloomberg

Exhibit 8: Price chart



Source: Bloomberg

Financial Summary

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	44,452	37,944	40,497	41,503
Operating Expenses	38,770	33,322	34,951	35,438
EBITDA	5,683	4,622	5,546	6,065
EBITDA Margin (%)	12.8	12.2	13.7	14.6
Depreciation & Amortization	835	998	1,098	1,138
EBIT	4,848	3,624	4,448	4,926
Interest expenditure	217	224	189	189
Other Non-operating Income	-	-	-	-
Recurring PBT	4,730	3,755	4,631	5,128
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	920	740	936	1,062
PAT	3,810	3,015	3,695	4,066
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	3,810	3,015	3,695	4,066
Net Income (Adjusted)	3,810	3,015	3,695	4,066

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	16,019	15,040	17,030	19,612
of which cash & cash eqv.	2,476	2,393	3,532	5,779
Total Current Liabilities & Provisions	4,972	5,171	5,524	5,663
Net Current Assets	11,047	9,869	11,506	13,949
Investments	-	1,980	1,980	1,980
Net Fixed Assets	9,208	9,910	10,812	11,174
ROU Assets	90	109	50	50
Capital Work-in-Progress	1,392	1,585	1,585	1,585
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax Assets	67	88	88	88
Total Assets	27,345	29,147	32,088	35,051
Liabilities				
Borrowings	2,718	1,317	1,317	1,317
Deferred Tax Liability	283	297	297	297
Provisions	61	77	77	77
Other Liabilities	485	493	526	539
Equity Share Capital	355	355	355	355
Reserves & Surplus	18,471	21,438	23,993	26,804
Total Net Worth	18,826	21,793	24,347	27,158
Minority Interest	-	-	-	-
Total Liabilities	27,345	29,147	32,088	35,051

Source Company data, I-Sec research

Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	9,831	9,405	9,290	9,741
% Growth (YOY)	(20.2)	(12.9)	(4.7)	3.4
EBITDA	1,249	1,125	1,017	1,241
Margin %	12.7	12.0	10.9	12.7
Other Income	27	64	239	54
Extraordinary	-	-	0	0
Adjusted Net Profit	774	714	775	797

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	4,826	4,074	4,610	5,003
Working Capital Changes	903	1,110	(514)	(202)
Capital Commitments	(1,461)	(1,583)	(2,000)	(1,500)
Free Cashflow	4,269	3,601	2,097	3,300
Other investing cashflow	(47)	(1,876)	372	391
Cashflow from Investing Activities	(25)	(1,857)	372	391
Issue of Share Capital	-	-	-	-
Interest Cost	(241)	(235)	(189)	(189)
Inc (Dec) in Borrowings	(1,039)	(1,404)	-	-
Dividend paid	(1,275)	(143)	(1,141)	(1,255)
Others	(88)	(107)	-	-
Cash flow from Financing Activities	(2,643)	(1,889)	(1,330)	(1,444)
Chg. in Cash & Bank balance	1,601	(144)	1,139	2,247
Closing cash & balance	2,319	2,332	3,532	5,779

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	107.5	85.0	104.2	114.7
Adjusted EPS (Diluted)	107.5	85.0	104.2	114.7
Cash EPS	131.0	113.2	135.2	146.8
Dividend per share (DPS)	22.0	22.0	32.2	35.4
Book Value per share (BV)	531.0	614.7	686.8	766.1
Dividend Payout (%)	20.5	25.9	30.9	30.9
Growth (%)				
Net Sales	20.6	(14.6)	6.7	2.5
EBITDA	41.8	(18.7)	20.0	9.3
EPS (INR)	45.0	(20.9)	22.6	10.0
Valuation Ratios (x)				
P/E	27.8	35.2	28.7	26.1
P/CEPS	22.8	26.4	22.1	20.4
P/BV	5.6	4.9	4.4	3.9
EV / EBITDA	15.9	18.9	15.5	13.8
EV/SALES	2.0	2.3	2.1	2.0
Dividend Yield (%)	0.7	0.7	1.1	1.2
Operating Ratios				
Gross Profit Margins (%)	30.3	32.1	33.8	35.8
EBITDA Margins (%)	12.8	12.2	13.7	14.6
Effective Tax Rate (%)	19.4	19.7	20.2	20.7
Net Profit Margins (%)	8.6	7.9	9.1	9.8
NWC / Total Assets (%)	31.3	25.6	24.8	23.3
Net Debt / Equity (x)	0.0	(0.1)	(0.2)	(0.2)
Net Debt / EBITDA (x)	0.0	(0.7)	(0.8)	(1.1)
Profitability Ratios				
RoCE (%)	19.1	13.0	14.6	14.4
RoE (%)	22.0	14.8	16.0	15.8
RoC (%)	20.7	15.4	18.3	19.1
Fixed Asset Turnover (x)	3.0	2.3	2.2	2.1
Inventory Turnover Days	53.0	53.5	53.5	53.5
Receivables Days	50.5	57.1	57.1	57.1
Payables Days	35.3	42.9	42.9	42.9

Source Company data, I-Sec research

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