

Galaxy Surfactants

Premium Speciality to drive growth

Our BUY recommendation on GALSURF with a price target of INR 3,466 is premised on (1) the global home and personal care leaders having raised the volume growth outlook for 2024 after strong volumes in YTD; (2) demand for premium specialty care products expected to rebound as demand in Europe and North America rebounds with the easing of inflation and the end of inventory destocking; and (3) demand in RoW markets continuing. Q2 EBITDA/APAT were 30/38% above our estimates owing to higher-than-expected revenue and offset by higher-than-expected raw material cost.

- Financial performance:** Q2 revenue increased by 8.1/9.1% YoY/QoQ to INR 10.63bn. EBITDA margin decreased by 69/73 bps YoY/QoQ to 12%. ROW volume grew by 27% YoY while AMET volume decreased 5% and Domestic remain flat. Gross profit margin has changed by 150/-62 bps YoY/QoQ to 32.96% in Q2FY25. It was impacted due to sudden rise in fatty alcohol prices. EBITDA per kg for the quarter was INR 18.7/kg compared to INR 19.4/19.2 per kg in Q1FY25/Q2FY24. Sequential decreased in EBITDA per tonne, owing to higher operating expenses which was increased from INR 31.68/kg to INR 32.67 per kg in Q2FY25.
- Post result con call takeaway: (1) AMET-** The company reported volume degrowth of ~5% YoY. Demand for the end user remains strong. Sales volumes impacted due to the non-availability of the container in and out and sharp increase in Layryl Alcohol prices. (2) **ROW-** The company reported volume growth of 26% YoY. The management expects the customers to launch premium products in the coming quarters which they had held back due to weakness in demand for such products in developed countries. In Q2FY25 company has seen signs of recovery in Premium specialty care product will improve realisation in H2FY25. (3) **India:** The company had flattish volume growth in the quarter. It was impacted due to slowing demand for premium home and personal care and slower than expected rural recovery. (4) Overall volume grew by 5% YoY while performance surfactants grew by ~6% and specialty grew by 2.5%. (5) **On container and freight rate:** The Red Sea crisis and container availability and thus increasing freight rates. There has not seen significant decline in freight rates. The company has started passing on this to customers. (6) Company incorporated subsidiary Galaxy Surfactants Mexico and Tri-k Mexico S.A. de C.V to increase the business in the America.
- DCF-based valuation: Our price target is INR 3,466 (WACC 10%, terminal growth 4%). We tweak our EPS estimates by 5.9/5.7% for FY25/FY26E.**

Financial summary (consolidated)

INR mn	Q2 FY25	Q1 FY25	QoQ (%)	Q2 FY24	YoY (%)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	10,630	9,741	9.1	9,831	8.1	36,857	44,452	37,944	41,708	46,713
EBITDA	1,277	1,241	2.9	1,249	2.2	4,007	5,683	4,615	5,262	6,269
APAT	847	797	6.3	774	9.4	2,628	3,810	3,007	3,482	4,246
AEPS (INR)	23.9	22.5	6.3	21.8	9.4	74.1	107.5	84.8	98.2	119.8
P/E (x)						37.3	25.8	32.6	28.2	23.1
EV/EBITDA(x)						23.8	17.2	21.5	19.1	16.4
RoE (%)						18.3	22.0	14.8	15.1	16.4

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY25E Old	FY25E New	% Ch	FY26E Old	FY26E New	% Ch
EBITDA (INR bn)	5.53	5.26	(4.9)	6.59	6.27	(4.9)
Adj. EPS (INR/sh)	104.4	98.2	(5.9)	127.0	119.8	(5.7)

Source: Company, HSIE Research

BUY

CMP (as on 13 Nov 2024)	INR 2,768
Target Price	INR 3,466
NIFTY	23,559

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 3,578	INR 3,466
	FY25E	FY26E
EPS % chg	-5.9%	-5.7%

KEY STOCK DATA

Bloomberg code	GALSURF IN
No. of Shares (mn)	35
MCap (INR bn) / (\$ mn)	98/1,164
6m avg traded value (INR mn)	75
52 Week high / low	INR 3,370/2,241

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(1.1)	8.9	(2.3)
Relative (%)	0.5	2.1	(21.9)

SHAREHOLDING PATTERN (%)

	June-24	Sept-24
Promoters	70.91	70.91
FIs & Local MFs	12.71	12.99
FPIs	3.87	4.08
Public & Others	12.50	12.02
Pledged Shares	0.00	0.00

Source: BSE

Nilesh Ghuge

nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Harshad Katkar

harshad.katkar@hdfcsec.com
+91-22-6171-7319

Prasad Vadnere

prasad.vadnere@hdfcsec.com
+91-22-6171-7356

Dhawal Doshi

Dhawal.doshi@hdfcsec.com
+91-22-6171-7361