

India

HOLD (previously Not Uploaded)

Consensus ratings*: Buy 10 Hold 4 Sell 0

Current price: Rs2,709
 Target price: ▲ Rs2,750
 Previous target: Rs0
 Up/downside: 1.5%
 InCred Research / Consensus: -11.3%

Reuters:
 Bloomberg: GALSURF IN
 Market cap: US\$1,159m
 Rs96,049m
 Average daily turnover: US\$0.7m
 Rs58.9m
 Current shares o/s: 35.5m
 Free float: 29.1%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.8	6.9	(15.2)
Relative (%)	7.0	1.5	(22.8)

Major shareholders	% held
Promoter & Promoter Group	70.9
FII	2.9
DII	12.7

Galaxy Surfactants Ltd

Headwinds likely in FY24F; AMET struggles

- 1Q revenue fell 19% YoY/4% QoQ, missing estimates. EBITDA/t at Rs20,739 vs. Rs23,245 QoQ & Rs26,780 YoY. EPS fell to Rs21.20 vs. Rs28.31 YoY.
- The 7.04% volume growth YoY was driven by performance surfactants. Specialty surfactants posted a lower single digit fall YoY but improved QoQ.
- Volume data not given as the company used to do earlier. Stock valued at LT mean P/E of 29x FY25F EPS. Retain HOLD rating on it with a TP of Rs2,750.

GSL registers its lowest EPS since 3QFY22

Galaxy Surfactants or GSL's 1QFY24 revenue and profitability declined as it witnessed the poorest quarter in terms of topline growth. This was mainly because of the prevailing macroeconomic headwinds in the AMET region (particularly Egypt) and the US market. With recessionary fears and the prevailing high inflation scenario, customers are becoming selective in choosing pricey products and hence, GSL's specialty surfactants volume remained flat.

Macroeconomic headwinds to persist in FY24F

Apart from India, GSL has plants in Egypt and the US. Both these countries are seeing a decline in discretionary spending for their own reasons. In the case of Egypt, its currency (Egyptian pound) depreciation and supply chain problems are leading to high inflation. This, in turn, is affecting the end-consumers as they are resorting to downtrading. It must be noted that in India, where GSL enjoys a monopoly status, it has customers across Tier-1, Tier-2 and Tier-3 networks. In Egypt, GSL mainly caters to Tier-1 clients i.e., large multinationals. Hence, when there is a higher inflation situation, customers resort to cheaper substitute products of local players.

Volume growth in Indian market is the only positive

Although GSL is struggling in foreign markets, it still registered a 7% growth YoY due to the Indian market. This is because the Indian market is proving to be particularly resilient, even in the current rate-hike scenario. It is the only saving grace for the company.

We value GSL at 29x FY24F EPS; retain HOLD rating

We valued GSL at its long-term P/E multiple of 29x FY25F EPS and arrived at a target price of Rs2,750. We believe GSL will struggle in FY24F, particularly in its foreign portfolio. As GSL derives 56% of its revenue from the AMET region and RoW, it will be a major laggard for the company although the Indian market continues to register growth. The key upside risk is any signs of optimism in Egypt and RoW markets leading to a higher discretionary spending by the consumers. A further deterioration in the AMET region's macroeconomic environment leading to reduced discretionary spending by end-consumers is a downside risk.

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Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	36,857	44,452	42,532	44,446	46,668
Operating EBITDA (Rsm)	4,007	5,683	4,847	5,161	5,556
Net Profit (Rsm)	2,628	3,593	3,002	3,205	3,490
Core EPS (Rs)	74.1	101.3	84.7	90.4	98.4
Core EPS Growth	(13.0%)	36.7%	(16.4%)	6.8%	8.9%
FD Core P/E (x)	36.55	26.73	31.99	29.97	27.52
DPS (Rs)	10.8	4.9	3.6	8.4	26.5
Dividend Yield	0.40%	0.18%	0.13%	0.31%	0.98%
EV/EBITDA (x)	24.71	16.92	19.48	17.97	16.19
P/FCFE (x)	(384.36)	33.54	47.43	43.11	26.79
Net Gearing	18.7%	0.4%	(7.2%)	(13.0%)	(21.0%)
P/BV (x)	6.10	4.95	4.29	3.75	3.30
ROE	18.3%	20.4%	14.4%	13.4%	12.8%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

GSL’s revenue contribution from India is on the rise ➤

As we can see in the chart below, GSL’s revenue contribution from India is increasing. This is because the foreign markets are performing poorly for the company. It must be noted that in 1QFY24, GSL achieved a mere 24% revenue from the AMET region, which was at 33% in FY22. This correctly signals the dilapidating state of the AMET region, particularly Egypt, and this is likely to persist in the coming quarters. The Manufacturing PMI data for Egypt suggests the same, as it has stayed below 50 for quite some time. It must be noted that a number below 50 suggests contraction whereas one above 50 indicates expansion.

Figure 1: GSL’s revenue break-up shows that AMET region’s share has been consistently on the decline

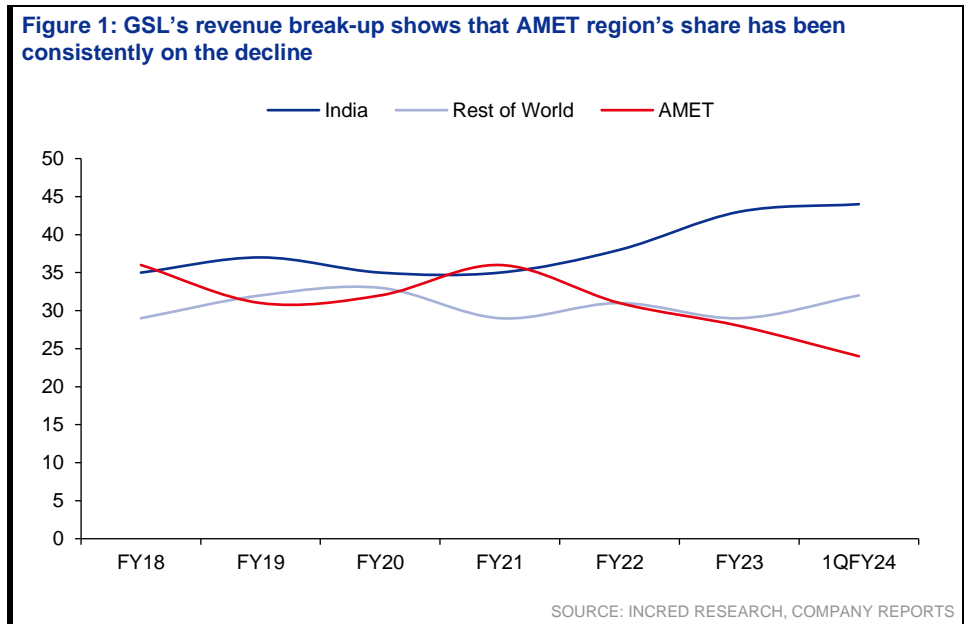
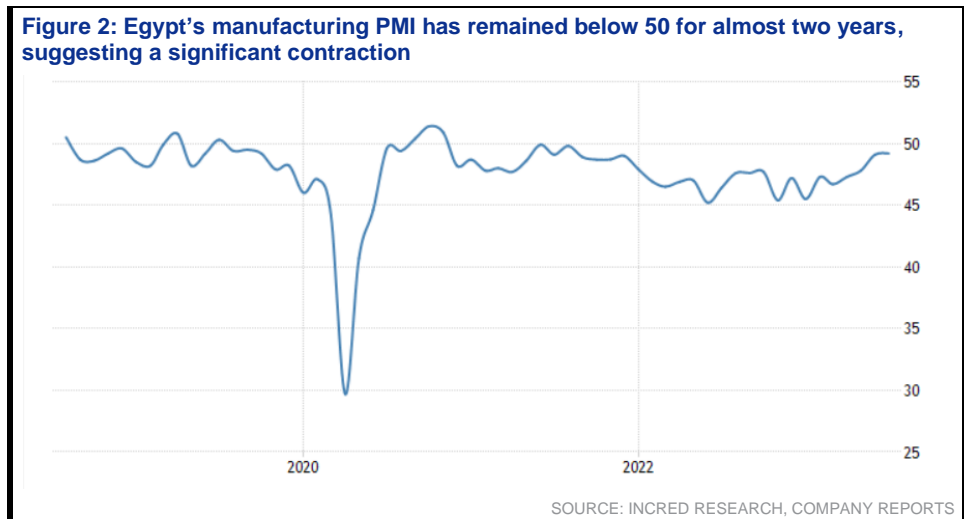


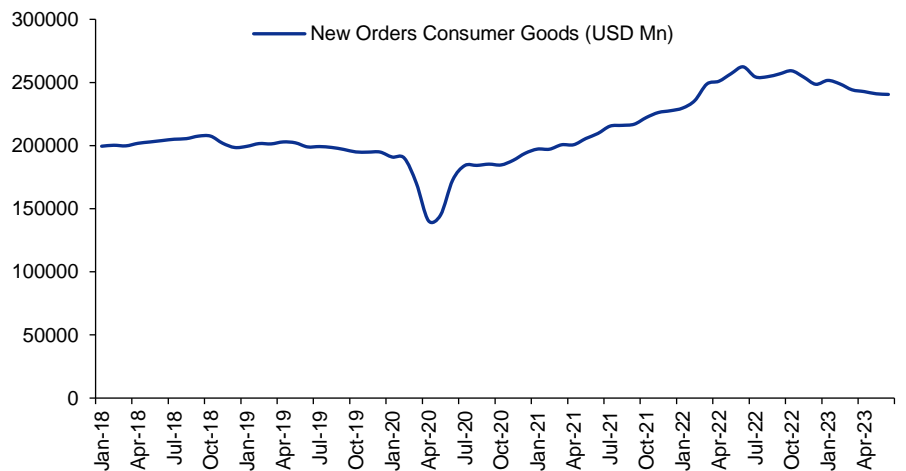
Figure 2: Egypt’s manufacturing PMI has remained below 50 for almost two years, suggesting a significant contraction



US market also offers no respite ➤

As far as the US market is concerned, the company has been grappling with an aggressive rate hike cycle by the US Federal Reserve. As a result, due to the prevailing macroeconomic environment, new orders for consumer goods have been on the decline. This suggests a bleak outlook for discretionary consumer goods in the US market. GSL has a subsidiary called Tri K Cosmetics in the US, which manufactures high-end colours for cosmetic products, something which falls under discretionary spending, and the spending is likely to decline on such products when the prevailing macroeconomic environment is not conducive.

Figure 3: New orders for consumer goods in the US market is also showing a decline, suggesting a bleak outlook

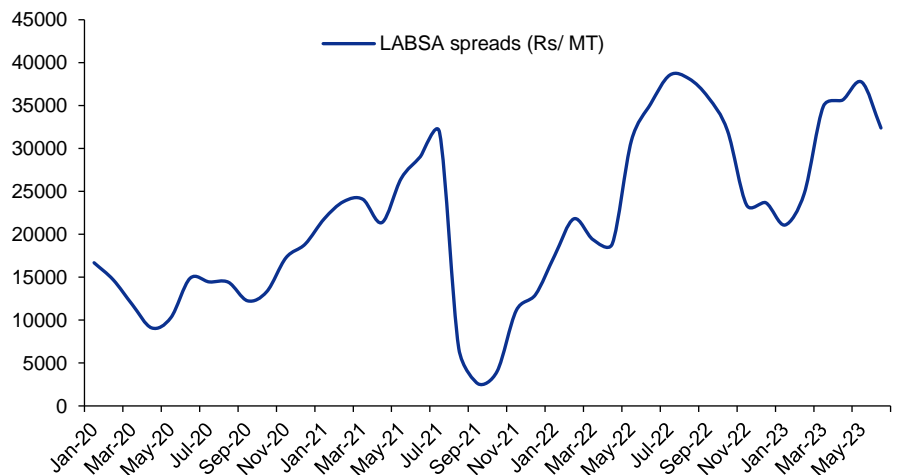


SOURCE: INCRED RESEARCH, COMPANY REPORTS

However, LABSA spreads appear to have stabilized ➤

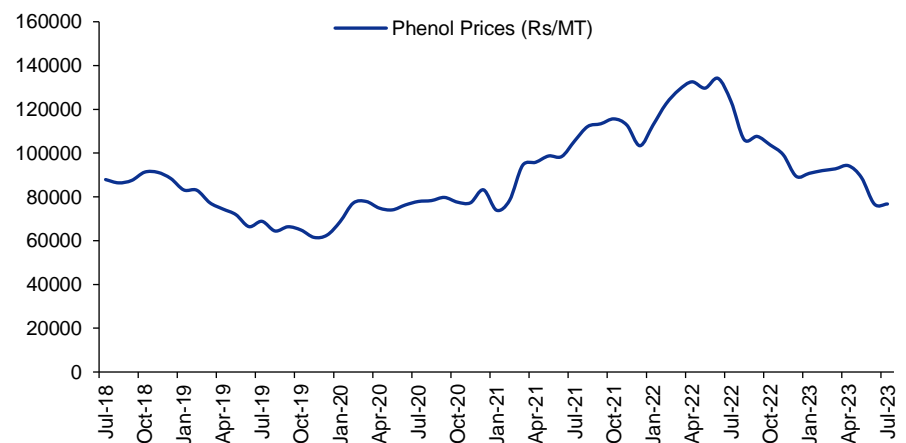
GSL hedges its spreads as far as commodity prices are concerned. Hence, the spread analysis is not very important for the company. However, it's still a positive factor that LABSA spreads over LAB appear to have stabilized.

Figure 4: LABSA spreads over LAB are above their long-term mean



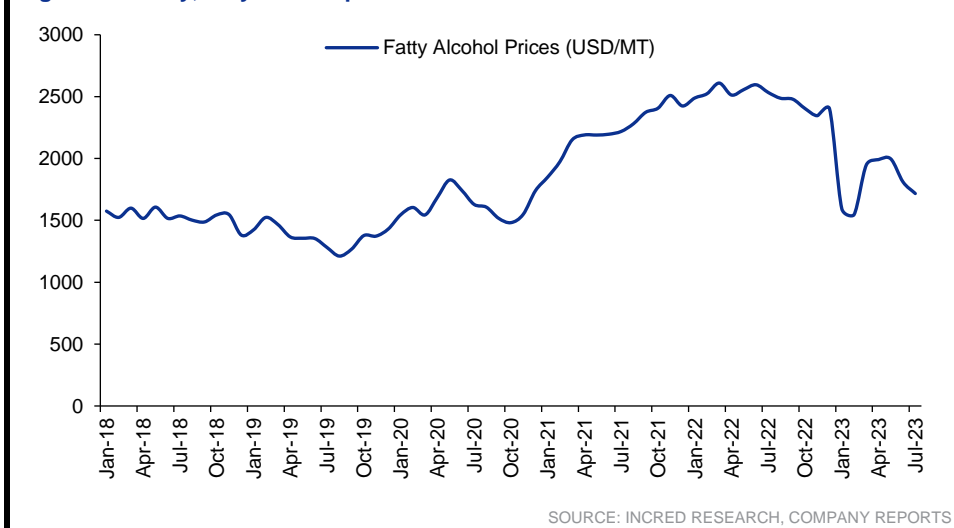
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Lower phenol prices are also a plus as phenol is used in the manufacture of phenoxyethanol



SOURCE: INCRED RESEARCH, COMPANY REPORTS

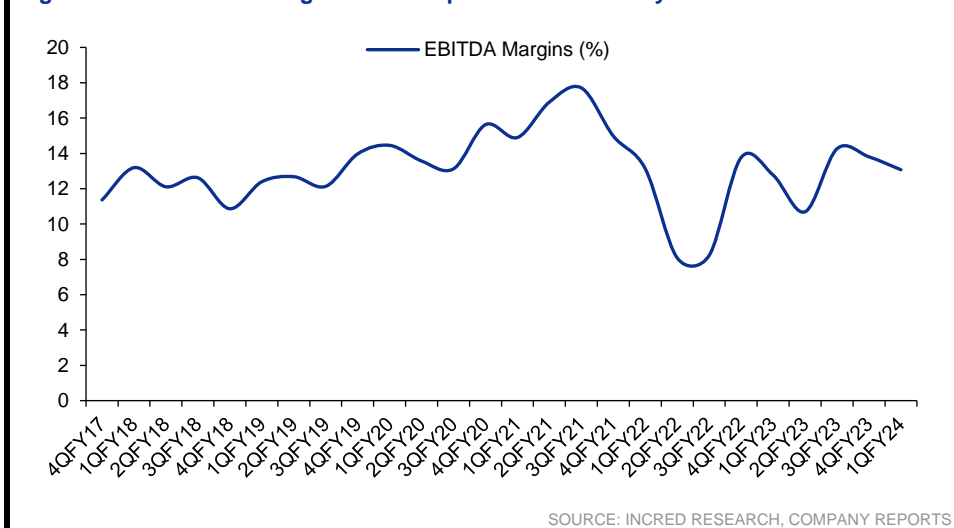
Figure 6: Finally, fatty alcohol prices have also declined



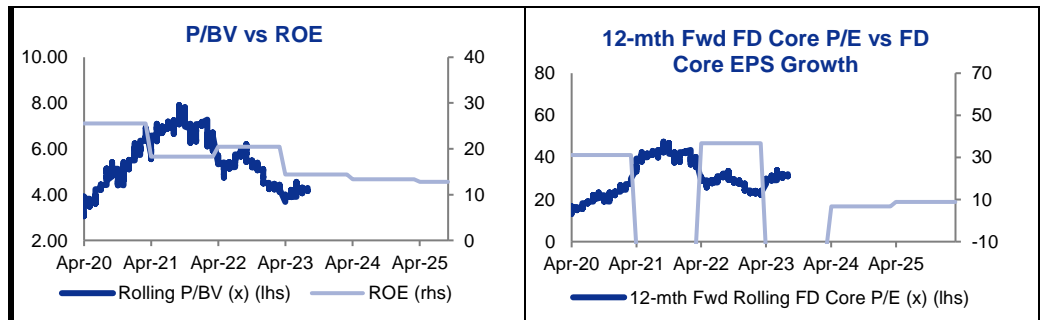
Favourable raw material prices lead to improvement in margins



Figure 7: The EBITDA margin of GSL improves considerably



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	36,857	44,452	42,532	44,446	46,668
Gross Profit	10,972	13,452	12,870	13,450	14,122
Operating EBITDA	4,007	5,683	4,847	5,161	5,556
Depreciation And Amortisation	(711)	(835)	(833)	(904)	(968)
Operating EBIT	3,297	4,848	4,014	4,257	4,588
Financial Income/(Expense)	(129)	(434)	(257)	(257)	(257)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	125	99	125	125	125
Profit Before Tax (pre-EI)	3,293	4,513	3,882	4,125	4,456
Exceptional Items					
Pre-tax Profit	3,293	4,513	3,882	4,125	4,456
Taxation	(665)	(920)	(880)	(920)	(966)
Exceptional Income - post-tax					
Profit After Tax	2,628	3,593	3,002	3,205	3,490
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,628	3,593	3,002	3,205	3,490
Recurring Net Profit	2,628	3,593	3,002	3,205	3,490
Fully Diluted Recurring Net Profit	2,628	3,593	3,002	3,205	3,490

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	4,007	5,683	4,847	5,161	5,556
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,450)				
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	246	32	(8)	(49)	(49)
Net Interest (Paid)/Received	(159)	(217)	(129)	(129)	(129)
Tax Paid	(993)	(842)	(893)	(963)	
Cashflow From Operations	(350)	4,656	3,817	4,020	5,378
Capex	(1,552)	(1,552)	(1,552)	(1,552)	(1,552)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	438	438	438	438	438
Other Investing Cashflow	272	272	272	272	272
Cash Flow From Investing	(841)	(841)	(841)	(841)	(841)
Debt Raised/(repaid)	941	(951)	(951)	(951)	(951)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(142)	(142)	(142)	(142)	(142)
Preferred Dividends					
Other Financing Cashflow	(207)	(207)	(207)	(207)	(207)
Cash Flow From Financing	592	(1,301)	(1,301)	(1,301)	(1,301)
Total Cash Generated	(600)	2,514	1,675	1,878	3,236
Free Cashflow To Equity	(250)	2,864	2,025	2,228	3,586
Free Cashflow To Firm	(1,063)	4,032	3,104	3,307	4,665

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	711	3,219	2,673	3,322	6,109
Total Debtors	6,380	6,470	6,191	6,469	6,793
Inventories	7,118	6,115	5,851	6,114	6,420
Total Other Current Assets	1,527	1,876	1,795	1,876	1,969
Total Current Assets	15,736	17,680	16,509	17,781	21,291
Fixed Assets	6,092	6,890	7,608	8,256	8,840
Total Investments					
Intangible Assets	82	82	82	82	82
Total Other Non-Current Assets	4,095	5,092	6,200	7,175	7,175
Total Non-current Assets	10,269	12,063	13,890	15,513	16,097
Short-term Debt	2,864	2,309	736		
Current Portion of Long-Term Debt					
Total Creditors	5,189	5,423	5,189	5,423	5,694
Other Current Liabilities	525	525	525	525	525
Total Current Liabilities	8,577	8,257	6,449	5,947	6,218
Total Long-term Debt	796	989	315		
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	487	487	487	487	487
Total Non-current Liabilities	1,283	1,476	802	487	487
Total Provisions	402	402	402	402	402
Total Liabilities	10,262	10,135	7,654	6,836	7,107
Shareholders Equity	15,744	19,411	22,399	25,590	29,067
Minority Interests					
Total Equity	15,744	19,411	22,399	25,590	29,067

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	32.4%	20.6%	(4.3%)	4.5%	5.0%
Operating EBITDA Growth	(10.7%)	41.8%	(14.7%)	6.5%	7.7%
Operating EBITDA Margin	10.9%	12.8%	11.4%	11.6%	11.9%
Net Cash Per Share (Rs)	(83.17)	(2.23)	45.74	93.70	172.30
BVPS (Rs)	444.04	547.48	631.76	721.77	819.82
Gross Interest Cover	25.65	22.34	31.24	33.13	35.70
Effective Tax Rate	20.2%	20.4%	22.7%	22.3%	21.7%
Net Dividend Payout Ratio	5.4%	4.0%	4.7%	4.4%	4.1%
Accounts Receivables Days	54.81	52.76	54.33	51.98	51.86
Inventory Days	80.35	77.90	73.62	70.45	70.28
Accounts Payables Days	63.16	62.47	65.30	62.48	62.33
ROIC (%)	12.6%	17.6%	13.6%	13.3%	13.7%
ROCE (%)	18.5%	22.8%	17.2%	17.2%	16.6%
Return On Average Assets	11.7%	14.1%	10.6%	10.7%	10.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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