

India

REDUCE (previously HOLD)

Consensus ratings*: Buy 9 Hold 5 Sell 0

Current price:	Rs2,667
Target price:	Rs2,552
Previous target:	Rs2,750
Up/downside:	-4.3%
InCred Research / Consensus:	-15.5%

Reuters:	
Bloomberg:	GALSURF IN
Market cap:	US\$1,302m
	Rs94,567m
Average daily turnover:	US\$0.7m
	Rs53.5m
Current shares o/s:	35.5m
Free float:	29.1%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.4	0.4	(16.4)
Relative (%)	5.1	(4.6)	(23.2)

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

Galaxy Surfactants Ltd

Spreads fall; headwinds to persist in FY24F

- 1Q revenue fell 19%YoY/4% QoQ, missing estimate. EBITDA/t was at Rs20,739.vs.Rs23,245 QoQ/26,780 YoY. EPS fell to Rs21.20 vs. Rs28.31 YoY.
- Although management is confident of posting volume growth, declining spreads of key molecules over their raw materials suggest otherwise.
- We valued the stock at 29x FY24F EPS and arrived at a target price of Rs2,552. Downgrade our rating on the stock to REDUCE.

Falling spreads of key molecules over RM indicate a bleak outlook

The spreads of Galaxy Surfactants or GSL's key molecules over their raw materials have declined considerably. Lauryl alcohol ethoxylate, which is a contributor to GSL's topline, has witnessed a decline in spreads over lauryl alcohol and ethylene oxide. This will make it harder for GSL to achieve an EBITDA/t of Rs20,000-22,000.

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. Egypt's 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 has a monopoly status, it has customers across Tier-1, Tier-2 and Tier-3 networks. In Egypt, it mainly caters to Tier-1 clients i.e., large multinationals. Hence, when there is a high inflation situation, customers prefer cheaper product substitutes from local players.

Volume growth in Indian market is the only positive

Although GSL is struggling in the international market, it still registers a 7% growth YoY because of 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; downgrade rating to REDUCE

We have valued GSL at its long-term P/E multiple of 29x FY24F EPS and arrived at a target price of Rs2,552. We downgraded our rating on the stock to REDUCE. We believe GSL will struggle in FY24F, particularly in its foreign portfolio. As GSL derives 56% of its revenue from AMET and RoW markets, it will be a major laggard for the company although the Indian market continues to register growth. Moreover, declining spreads in its key molecules could make it further difficult for the company to achieve its stated guidance. The key upside risk could be a significant improvement in the macroeconomic environment of AMET and RoW markets, which may improve the end-consumers' discretionary spending.

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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)	35.99	26.32	31.50	29.51	27.09
DPS (Rs)	10.8	4.9	3.6	8.4	26.5
Dividend Yield	0.41%	0.18%	0.13%	0.31%	0.99%
EV/EBITDA (x)	24.34	16.65	19.18	17.68	15.92
P/FCFE (x)	(378.43)	33.02	46.70	42.45	26.37
Net Gearing	18.7%	0.4%	(7.2%)	(13.0%)	(21.0%)
P/BV (x)	6.01	4.87	4.22	3.70	3.25
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

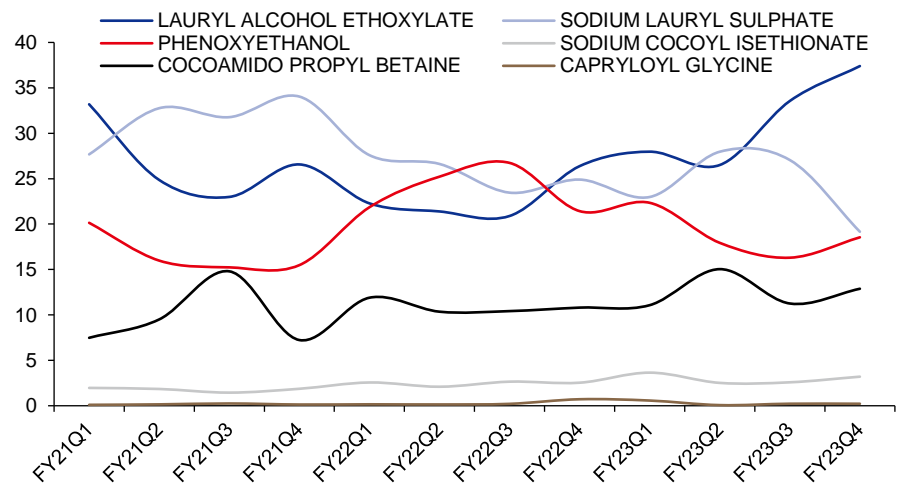
Spreads fall; headwinds to persist in FY24F

As discussed in our previous report, GSL has been facing headwinds in AMET and RoW geographies. However, on analyzing the sales data, we have found that spreads for GSL's molecules have been declining over their raw materials. This is particularly in the case of lauryl alcohol ethoxylate, phenoxyethanol and sodium lauryl sulphate, the three largest molecules in terms of volume and value as far as exports are concerned, witnessing a decline in spreads over their respective raw materials. Spreads for LABSA over LAB are also normalizing because of the fall in LABSA prices.

Indian market has been the saving grace for GSL ▶

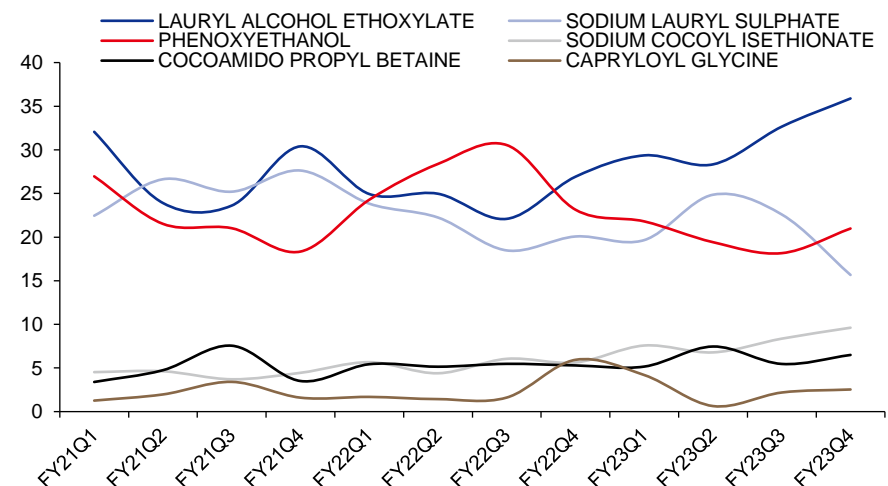
GSL's India business has been showing a double-digit volume growth, resulting in the company's management quite confident of achieving a 6-8% volume growth for the current year. However, on analyzing India's export data, we believe that even though the company will be able to achieve volume growth, its EBITDA/t may decline in the coming quarters.

Figure 1: Volume break-up (%) of GSL's exports from India; lauryl alcohol ethoxylate is the largest contributor



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Value break-up (%) of GSL's exports from India; lauryl alcohol ethoxylate is also the biggest contributor here

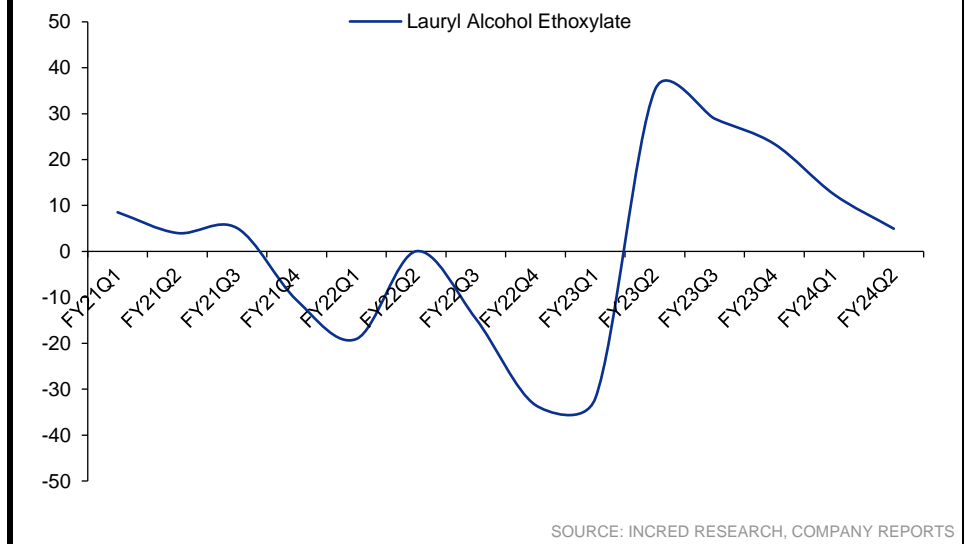


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Lauryl alcohol ethoxylate’s spreads over raw material have declined ➤

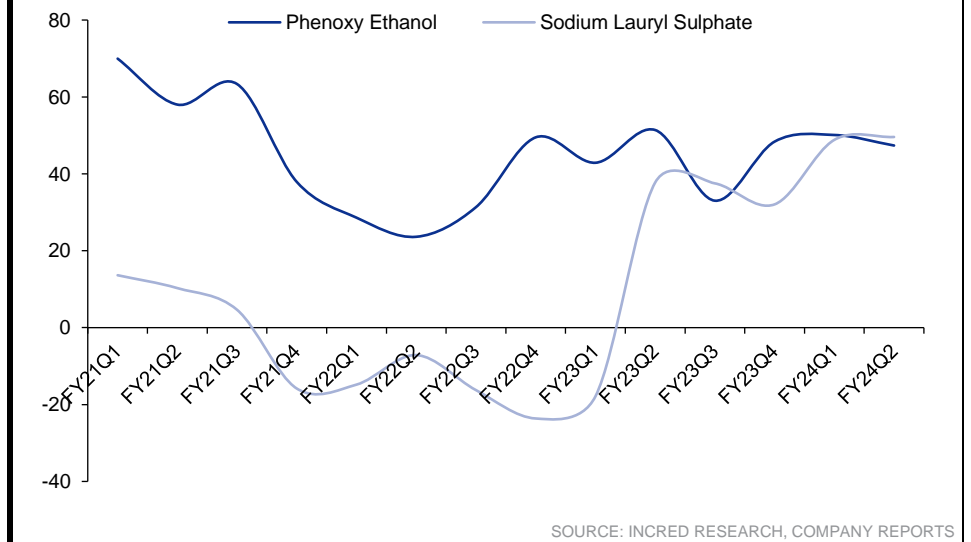
Lauryl alcohol ethoxylate is manufactured from lauryl alcohol and ethylene oxide in the weight ratio 1:0.813:0.185. Declining prices of lauryl alcohol ethoxylate mainly contribute to the decline in spreads over its raw material. This is mainly due to destocking in the value chain by the company’s FMCG clients and is expected to persist, at least in FY24F.

Figure 3: Lauryl alcohol ethoxylate spreads (Rs/kg) have declined considerably over its raw material



Sodium lauryl sulphate & phenoxyethanol spreads are stable ➤

Figure 4: Phenoxy Ethanol spreads are stable but SLS spreads are volatile



Spreads for remaining molecules are largely stable or declining ➤

Figure 5: Capryloyl glycine spreads over raw material has started to correct

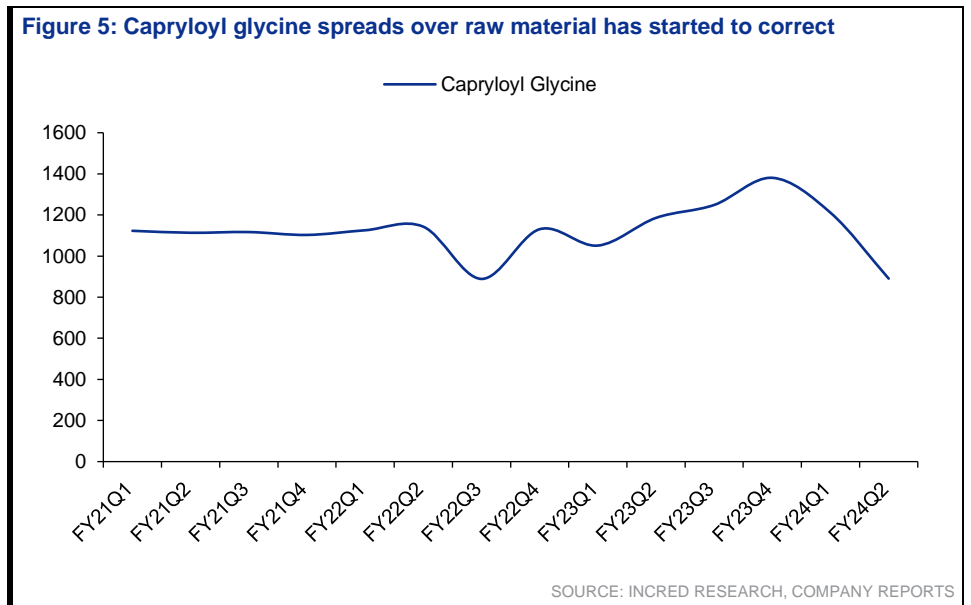
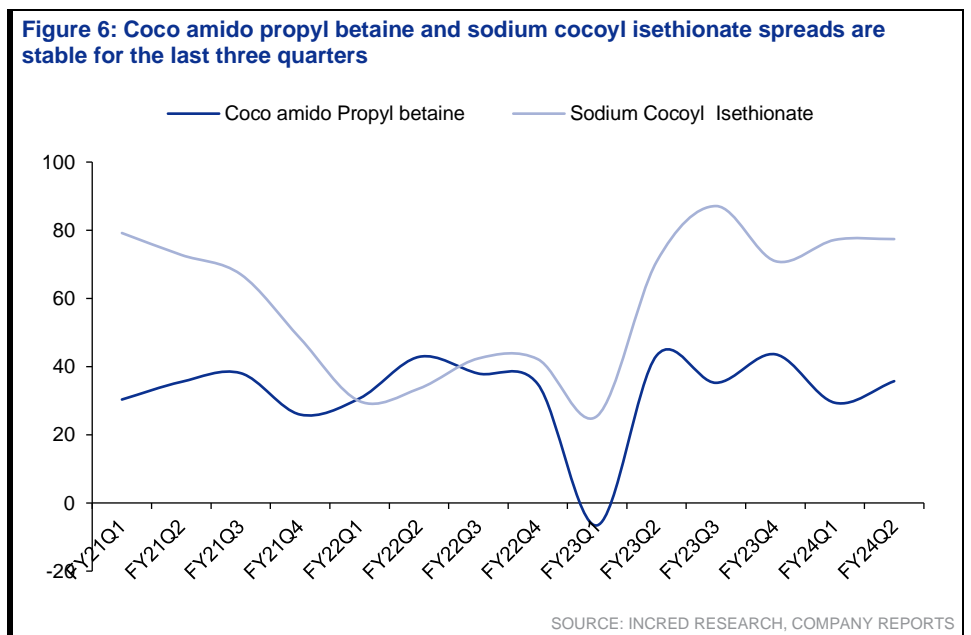


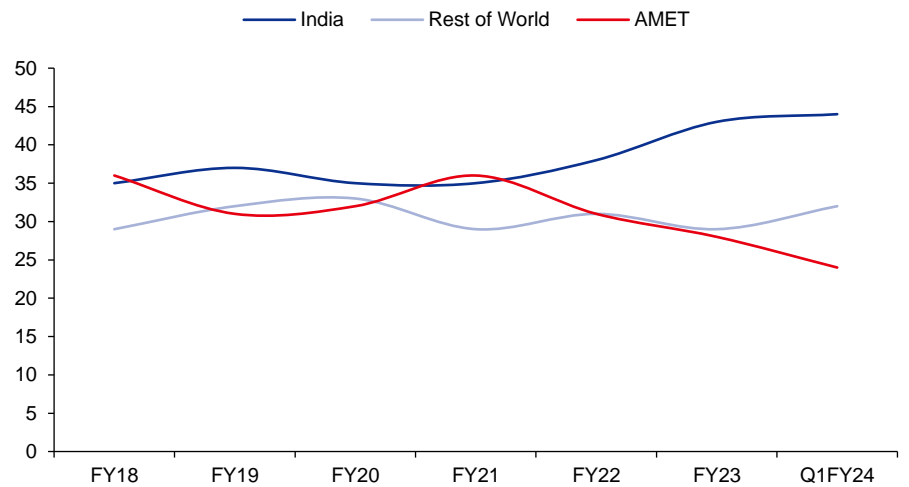
Figure 6: Coco amido propyl betaine and sodium cocoyl isethionate spreads are stable for the last three quarters



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

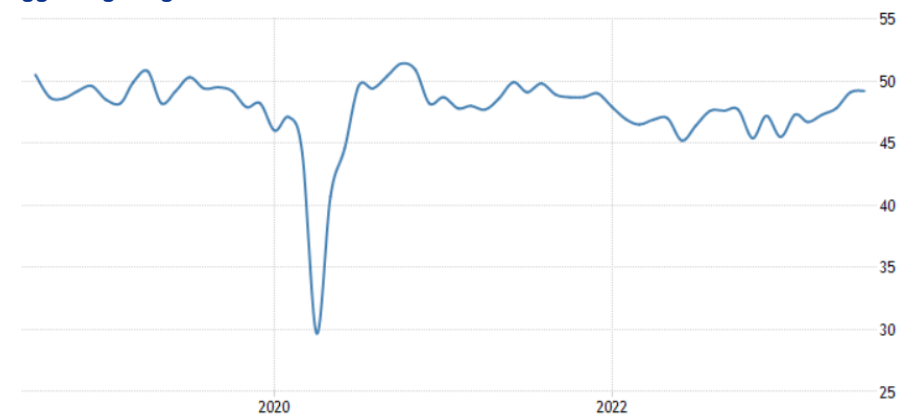
As we can see in the chart below, GSL’s revenue contribution from India is on the rise. This is because the international market for GSL is performing poorly. It must be noted that in 1QFY24, GSL achieved just 24% revenue from the AMET region, which used to be 33% in FY22. This correctly signals the dilapidating state of the AMET market, particularly Egypt, and is expected 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 any number below 50 suggests contraction whereas any number above 50 indicates expansion.

Figure 7: Revenue break-up of GSL; AMET market has been consistently on the decline



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Egypt's manufacturing PMI remained below 50 for almost two years, suggesting a significant contraction

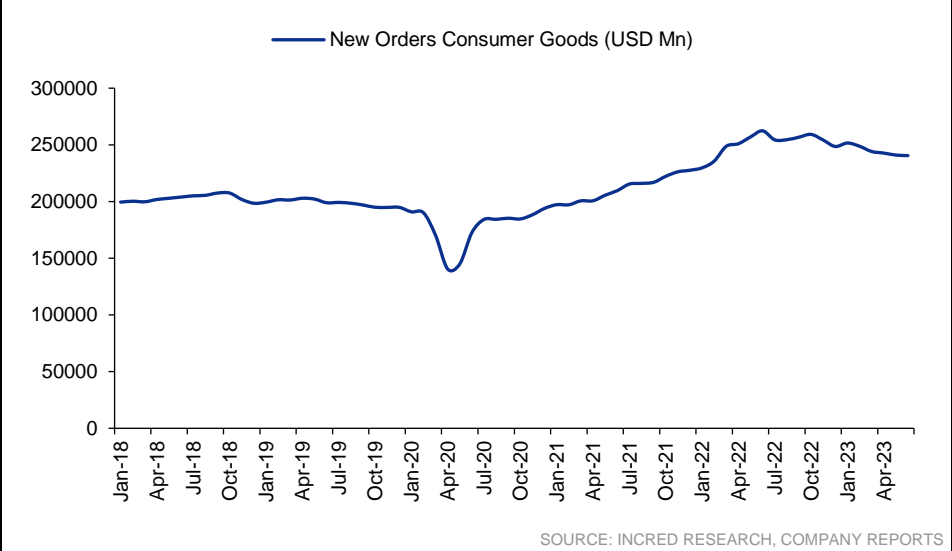


SOURCE: INCRED RESEARCH, COMPANY REPORTS

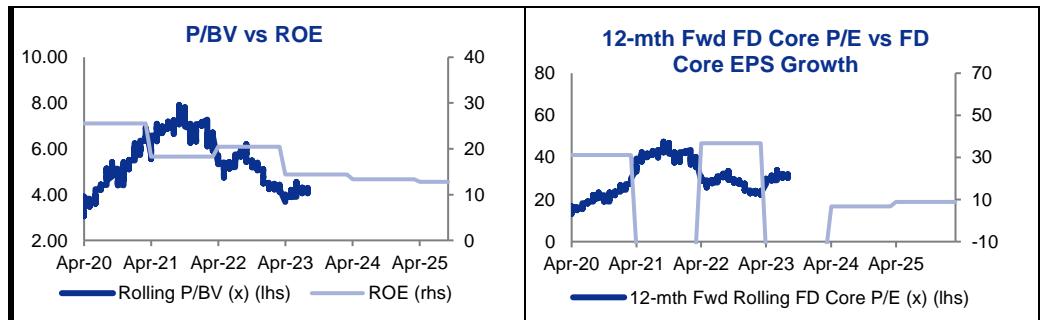
US market also offers no respite ➤

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

Figure 9: New orders for consumer goods in the US market is also showing a decline, suggesting a bleak outlook



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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