SMART SYNC SERVICES

Galaxy Surfactants Q1FY21

Financial Results & Highlights

Brief Introduction:

Galaxy Surfactants is engaged in manufacturing of surfactants and other speciality ingredients for the personal care and home care industries. The Company produces a range of vital cosmetic ingredients, including active ingredients, ultra violet (UV) protection and functional products. Its products cater to various brands in the fast moving consumer goods (FMCG) sector and offers in various applications, including skin care, hair care, oral care, body wash, sun care, household cleaners and fabric care segments. Galaxy Surfactants is a global leader supplying a wide range of innovative products to over 1750+ customers in 80+ countries.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	362	470	-22.98%	435	-16.78%
PBT	46	58	-20.69%	59	-22.03%
PAT	34	37	-8.11%	46	-26.09%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	608	666	-8.71%	657	-7.46%
PBT	70	76	-7.89%	82	-14.63%
PAT	56	53	5.66%	63	-11.11%

Detailed Results:

1. Consolidated revenues fell 8.7% YoY in Q1 mainly on the back of lower fatty alcohol prices which declined from $1161 to $1089 YoY & the fall in specialty chemical sales in Q1.
2. EBITDA for Q1 fell 6.4% YoY while PAT grew 5.7% YoY. EBITDA margin improved 40 bps YoY to 15% in Q1.
3. Volume growth in different geographies in Q1FY21 is as follows:
    - India: Down 2.3% YoY
    - AMET: Up 10.2% YoY
    - Rest of the World: Down 27.4% YoY
4. In Q1, revenue growth in performance surfactant division was 11.5 YoY while specialty care products fell 39.1% YoY. Volumes for PS division grew 7.8% YoY while SCP division volumes fell 26.2% YoY.
5. The company currently has 72 approved patents and 14 are under application.
6. EBITDA/Ton remains stable at above Rs 17,000.

Investor Conference Call Highlights

1. The fall in specialty care products was mainly due to cutbacks in discretionary consumption and an overall slowdown in the developed markets. This expected to reverse as consumption cycle revives and normalcy comes back.

2. A good monsoon followed by a pickup in rural consumption and growing awareness for hygiene and cleanliness has the potential to result in an improved performance going ahead in India.

3. In response to the mishap which took place recently in one of the company's plants which claimed 3 lives in a blast, the company is looking to improve emergency training and it has created a task force to go through the entire factory, equipment by equipment, process by process, plant by plant. The company has started back the plant only after the full inspection was completed and no other issues came to light.

4. Despite the rise in the product mix of low margin performance surfactants, the EBITDA/ton remained above Rs 17,000 as most of the sales were to T1 customers and less to T3 customers who were disrupted the most from COVID-19. And performance surfactants by itself is not a low margin product always and is mainly dependent on RM prices.

5. Geographical revenue breakup is as follows:

    a. AMET: 42%

    b. India: 37%

    c. ROW: 21%

6. The company and management expect the momentum and margins in AMET to continue going forward.

7. The decline in ROW was mainly due to logistical disruptions from lockdown.

8. The demand for the company's products remains buoyant and robust. It is the supply that may be a cause for concern here as around 20-25% of the workforce was unavailable in the past 4-5 months. The management is aiming to reduce this workforce deficit to 0 as soon as possible.

9. The management has stated that the driver for specialty chemicals and its demand is mainly consumer needs and wants. The top of the line priorities for customers generally is protection which is moving towards non-toxic preservation, mildness, sustainability, and sensory. Due to COVID-19, the demand has skewed more towards protection and away from the beauty and personal preferences. This shift in priorities is expected to be short term as demand for discretionary products will come back once normalcy comes back. But the increased priority to protection seems to be permanent.

10. The company has reported a loss in demand for high-end beauty products and similar segments as well as a fall in consumption in travel packs for all segments.

11. The capex implementation planned earlier was to start in October. This has been delayed by 6 months due to COVID-19 and will commence from April next year.

12. Capacity utilization is at 60-65% of pre-COVID levels. It is at 57.6% in absolute terms.

13. Consumer demand remains intact and the management is confident that it will be able to recoup lost demand going forward once supply-side constraints get solved.
14. The shift of more sales to T1 compared to T3 customers is not conscious on part of the company and it was simply because T1 customers were able to resume operations faster than T3 customers. Going forward, this shift is expected to revert back to the previous level as T3 customers also come back to normal.
15. The has been no pullback in committed volumes by any customer for the company due to COVID-19. There hasn't been any structural change in the nature of demand. It is just that the priorities have shifted more towards protection at the detriment of beauty. But this fall in demand for beauty products is only short term and it should normalize going forward.
16. In terms of volume mix, 60-65% is performance surfactants and 30-35% in specialty chemicals.
17. The reduction in expenses is disruption related and is expected to reverse as volumes rise and normal business activities resume.
18. In terms of volumes, only Egypt has shown volume growth in Q1.

Analyst's View:

Galaxy Surfactants is one of the most consistent specialty chemical makers in India. The company has done well to achieve sales volume growth despite disruptions from the domestic lockdown and has even managed to maintain EBITDA/ton despite the product mix shifting towards performance surfactants. The company suffered a revenue decline despite volume growth mainly due to a fall in fatty alcohol prices which forms around 52% of its requirements. The company has seen good growth coming from the AMET region particularly Egypt and demand in all geographies is seen to be reviving. The company is expecting good demand for its products going forward due to the renewed focus on health & hygiene and revival in demand for specialty chemicals going forward. The company has enough spare capacity to handle any upsurge in demand. It remains to be seen how the whole situation will pan out going forward and what final impact it will have on the global economy and whether the focus on health and hygiene is going to stay or not post COVID. Nonetheless, given the company's robust product portfolio and the ever-increasing list of both FMCG majors and niche specialty product makers, Galaxy Surfactants remains a good stock to watch out for in the specialty chemicals space.