

Galaxy Surfactants Q4FY21

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)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	529	435	21.61%	456	16.01%	1835	1798	2.06%
PBT	53	59	-10.17%	62	-14.52%	239	230	3.9%
PAT	39	46	-15.22%	46	-15.22%	178	182	-2.20%
Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	786	657	19.63%	678	15.93%	2795	2602	7.42%
PBT	93	82.0	13%	103	-10%	372	289	29%
PAT	77	63	22%	85	-9.41%	302	230	31.30%

Detailed Results:

- Consolidated revenues grew 20% YoY in Q4.
- EBITDA for Q3 grew 16.9% YoY while PAT grew 22% YoY.
- EBITDA margin improved down 30 bps YoY to 15.3% in Q4.
- Fatty alcohol prices went up to \$2073/MT from \$1588 in Q3 and \$1270 last year.
- Volume growth in different geographies in FY21 is as follows:
 - India: Up 11.2% YoY
 - AMET: Up 8.2% YoY
 - Rest of the World: Down 6.8% YoY
 - Total: Up 5.3% YoY
- In Q4, revenue growth in the performance surfactant division was 30.2% YoY while specialty care products grew 5.1% YoY. Volumes for the PS division grew 7.4% YoY while SCP division volumes grew 10.5% YoY.
- In FY21, revenue growth in the performance surfactant division was 12.1% YoY while specialty care products grew 0.2% YoY. Volumes for the PS division grew 8.8% YoY while SCP division volumes fell 0.9% YoY.
- Closing cash for FY21 was at Rs 81.5 Cr.
- The company currently has 78 approved patents and 13 are under application as of date.

10. The Board has declared a final dividend of Rs. 4 per share.
11. EBITDA/Ton in FY21 was at Rs 19,465 which was up 16.4% YoY.

Investor Conference Call Highlights

1. In FY21, Galaxy delivered a ROCE of 25.2% and an operating cash generation of Rs 365 Cr.
2. Performance surfactants segment saw similar sales in H2 as in H1 but specialty care products volume growth in H2 over H1.
3. The capex planned for specialty care products has been delayed by 6 months and is expected to be operational by Q4FY22.
4. The gross margin was at Rs 42,000 per ton for Galaxy in FY20. It may change depending on a variety of factors. The management assures that the EBITDA/ton figure shall remain resilient in the range of Rs 16,000-18,000 per ton.
5. The management admitted that the rest of the world's numbers were indeed affected by the delay in shipping through the Suez Canal.
6. The capex should be at a normal level of Rs 150 Cr for FY22.
7. The management is more concerned with the demand situation than the rise in RM costs as it can always pass the RM price rises if the demand situation remains resilient.
8. The management admits that the margins can get tempered going forward due to rising RM prices.
9. The management doesn't see any structural change coming in due to the rise in RM prices. It maintains that the main structural change the industry has seen has been regarding the health and hygiene habits of everyone which has led to increased demand for performance surfactants.
10. The utilization level in surfactants is at 65-68% currently.
11. The specialty portfolio is only at 15% of India sales currently.
12. The company is aiming for 6-8% volume growth each year.
13. The management has admitted that oleo surfactants can cannibalize synthetic surfactants in western economies, but it will not be able to replace them in emerging economies.
14. The US operations are largely towards specialty care products while the Egypt operations are largely towards performance surfactants.
15. The management has clarified that it has not been in direct competition with Indian Glycols for more than 20-25 years now.
16. The company decided to write down the Tarapur plant as it was very old being built almost 35 years ago and it was more feasible to tear it down and make a new plant than to refurbish the old one.
17. T1 customers were at 53% of sales, T2 at 13%, and T3 were at 34%.
18. The management maintains that the price increases are taken in a calibrated manner as the RM prices are rising. The same action will be taken in the opposite direction when RM prices come down.
19. The CWIP is higher this year as the projects started 2 years are nearing completion.
20. The management states that although the global industry growth is expected to be at 2-3% only, there is a large headroom for growth in emerging markets like India, Africa, and the Middle East and Galaxy is positioned well to capture the growth in these geographies.

21. The management maintains that growth will come from increasing wallet share in existing products and from expanding the product basket in accordance with emerging trends and innovations.

Analyst's View:

Galaxy Surfactants is one of the most consistent specialty chemical makers in India. The company has done well to achieve good revenue & profit growth in Q4 and has managed to increase EBITDA/ton to above Rs 19,000 in FY21 highlighting a good year. It also saw a good rise in demand for specialty care products in H2 after a tepid H1. The company has seen good growth coming from India as demand comeback was strong for all tiers of customers. The company is expecting sustained demand for its products going forward due to the renewed focus on health & hygiene and the new products of nontoxic preservatives and mild surfactants but has been constrained due to global supply chain issues and rising RM prices. The only credible concerns for the company are RM inflation and supply chain issues arising from the shipping container shortage. It remains to be seen how the RM inflation will pan out going forward 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.

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