Galaxy Surfactants Q2FY21

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.

<table>
<thead>
<tr>
<th>Standalone Financials (In Crs)</th>
<th>Q2FY21</th>
<th>Q2FY20</th>
<th>YoY %</th>
<th>Q1FY21</th>
<th>QoQ %</th>
<th>H1FY21</th>
<th>H1FY20</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>488</td>
<td>456</td>
<td>7.02%</td>
<td>362</td>
<td>34.81%</td>
<td>850</td>
<td>926</td>
<td>-8.21%</td>
</tr>
<tr>
<td>PBT</td>
<td>78</td>
<td>64</td>
<td>21.88%</td>
<td>46</td>
<td>69.57%</td>
<td>124</td>
<td>121</td>
<td>2.48%</td>
</tr>
<tr>
<td>PAT</td>
<td>58</td>
<td>63</td>
<td>-7.94%</td>
<td>34</td>
<td>70.59%</td>
<td>92</td>
<td>100</td>
<td>-8.00%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consolidated Financials (In Crs)</th>
<th>Q2FY21</th>
<th>Q2FY20</th>
<th>YoY %</th>
<th>Q1FY21</th>
<th>QoQ %</th>
<th>H1FY21</th>
<th>H1FY20</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>723</td>
<td>650</td>
<td>11.23%</td>
<td>608</td>
<td>18.91%</td>
<td>1331</td>
<td>1316</td>
<td>1.14%</td>
</tr>
<tr>
<td>PBT</td>
<td>106</td>
<td>68</td>
<td>55.88%</td>
<td>70</td>
<td>51.43%</td>
<td>176</td>
<td>144</td>
<td>22.22%</td>
</tr>
<tr>
<td>PAT</td>
<td>82</td>
<td>67</td>
<td>22.39%</td>
<td>56</td>
<td>46.43%</td>
<td>138</td>
<td>120</td>
<td>15.00%</td>
</tr>
</tbody>
</table>

**Detailed Results:**

1. Consolidated revenues grew 11% YoY in Q2.
2. EBITDA for Q2 grew 41.2% YoY while PAT grew 22% YoY. EBITDA margin improved 370 bps YoY to 17.4% in Q2.
3. Fatty alcohol prices went up to $1228/MT from $1089 in Q1 and $1065 last year.
4. Volume growth in different geographies in Q2FY21 is as follows:
   - India: Up 27% YoY
   - AMET: Up 6.1% YoY
   - Rest of the World: Down 4% YoY
5. In Q2, revenue growth in the performance surfactant division was 11.3% YoY while specialty care products grew 11.6% YoY. Volumes for the PS division grew 15.3% YoY while SCP division volumes grew 2.1% YoY.
6. The company had its first-ever quarter with PBT above Rs 100 Cr.

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7. Closing cash and cash equivalents in Q2 was at Rs 61.7 Cr.
8. The company currently has 77 approved patents and 13 are under application.
9. EBITDA/Ton in Q2 was at Rs 20,006 vs Rs 15,624 last year.

**Investor Conference Call Highlights**

1. According to the management, demand for essentials remains fairly strong, and the masstige category now seems poised to make a comeback.
2. The margin appreciation was contributed to by the shift in product mix, increase in capacity utilization and reduction in other expenses.
3. The management continues to maintain EBITDA margin guidance of 15-17%.
4. In H1, the new age preservatives have been launched.
5. The company is setting up Capex and the site will go inline from Q1FY22.
6. The trajectory of EBITDA per tonne shall remain hinged on the mix between performance surfactants and specialty products.
7. Capacity utilization in Q2 was at 71.3% and it was 64.4% in H1.
8. The company has also been able to save on other expenses of travel and others in Q2 due to COVID-19.
9. Most of the growth in Q2 has been led by regular sales according to the management.
10. The management expects the momentum in Specialty care to continue in the coming quarters as discretionary spending comes back to normal.
11. The big change in SCP revenues despite modest volume growth in the segment was due to the newly launched new age preservatives and mild surfactants brands.
12. The company’s tier 3 customers are seeing good growth and now contribute to 36% of total sales vs 32% previously.
13. Around 3,000-4,000 tons of volume is expected to have come from pent up demand from Q1.
14. Egypt accounts for 1/3rd of AMET volumes and has grown 2-3% QoQ. This was normal as it was not affected in Q1 at all.
15. The company expects to commission certain CapEx projects by the first quarter of next year, which will also progressively add to its margins and EBITDA per tonne.
16. Oleochemicals contribute to 70% of RM consumption of the company.
17. Tier 1 customers will give Galaxy a one-month firm plan and a directional plan for the next month. This will be kept rolling with different numbers. Any increase or decrease in demand is visible to the company with a notice of almost 2 months.
18. The current Capex plans are the same as before at Rs 130-150 Cr for its multipurpose plant at Tarapur and expansion of Specialty Ingredients plant at Jhagadia.

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19. The delay in commissioning in these 2 projects has been mainly due to COVID-19.

20. 67% of revenues are from exports.

21. The management has stated that the company is mainly innovation-driven and is not focussing on import substitution.

22. R&D spend is about 2% of revenues.

23. The company has not seen business development slow down at all due to the travel restrictions and has seen improvement in customer engagement in general.

24. The company is indeed expecting good growth from the new product launches as these products were developed as the company felt the need for these products such as the demand for sulfate-free formulations and transparent sulfate-free formulations and nontoxic preservatives.

25. The absolute cost savings from COVID-19 was at Rs 4-5 Cr.

26. The expansion in the USA was very timely and has helped Galaxy make progress in the high-end specialties segment there.

27. Most of the company’s orders are contractual for 3-6 months and thus prices are fixed for the duration of the contract. For spot customers, price changes due to RM cost changes are instantaneous.

**Analyst’s View:**

Galaxy Surfactants is one of the most consistent specialty chemical makers in India. The company has done well to achieve good sales volume & profit growth and has managed to maintain EBITDA/ton due to increased utilization and launch of new products. The company saw revenue growth despite modest volume growth mainly due to a rise in fatty alcohol prices and demand for new products. The company has seen good growth coming from India as demand comeback was strong for all tiers of customers. The company is expecting good demand for its products going forward due to the renewed focus on health & hygiene and the new products of nontoxic preservatives and mild surfactants. 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.

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