

Galaxy Surfactants Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	456	438	4.11%	488	-6.56%	1306	1363	-4.18%
PBT	62	49	26.53%	78	-20.51%	186	170	9.41%
PAT	46	37	24.32%	58	-20.69%	138	136	1.47%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	678	629	7.79%	723	-6.22%	2009	1946	3.24%
PBT	103	63	63%	106	-2.83%	279	207	34.78%
PAT	85	48	77%	82	3.66%	223	168	32.74%

Detailed Results:

- Consolidated revenues grew 8% YoY in Q3.
- EBITDA for Q3 grew 43.3% YoY while PAT grew 77% YoY driven by increasing share of specialty, better product mix due to new products, and higher capacity utilization.
- EBITDA margin improved 450 bps YoY to 18.1% in Q3.
- Fatty alcohol prices went up to \$1588/MT from \$1228 in Q2 and \$1188 last year.
- Volume growth in different geographies in Q3FY21 is as follows:
 - India: Up 14.4% YoY
 - AMET: Up 2.9% YoY
 - Rest of the World: Up 4.3% YoY
 - Total: Up 7.3% YoY
- In Q3, revenue growth in the performance surfactant division was 3.7% YoY while specialty care products grew 14.1% YoY. Volumes for the PS division grew 4.7% YoY while SCP division volumes grew 12% YoY.
- The company currently has 78 approved patents and 13 are under application as of date.
- The Board has declared an interim dividend of Rs. 14 per share.
- EBITDA/Ton excluding export incentives in Q3 was at Rs 18,632.
- 9M performance was similarly good with revenue rise of 3% and PAT rise of 33% YoY.

11. Volumes in 9M grew 4.2% YoY. EBITDA/ton was at Rs 19,620 vs Rs 16,387 last year.

Investor Conference Call Highlights

1. Demand remains resilient and with vaccination drive gaining traction, focus on health and hygiene remains strong in both masstige as well as premium specialty products.
2. Pricing vulnerability in raw material prices & supply chain disruptions pose the biggest risks in servicing this underlying demand.
3. Galaxy's new products in the nontoxic preservation, sulfate-free, and proteins range accounted for 5% of revenues in Q3.
4. The company has also seen a strong improvement in business share with non-MNC customers.
5. T1 revenue share is now down to 50.4% from 63.8% in Q1.
6. The management has reiterated that growth for galaxy will be driven by proteins, mild surfactants, nontoxic preservatives & syndet, and transparent bathing bars which have gained a lot of visibility lately.
7. The growth taper in AMET was mainly due to supply chain disruptions which reduced sales in Q3.
8. The EBITDA/ton is expected to continue growing slowly as the pie of specialty products grows for Galaxy.
9. Depending on the capex requirements, the company will keep increasing or decreasing the dividend payout accordingly.
10. The company has restarted 3 capex projects which were put on hold due to COVID-19. They are:
 - a) CapEx at Tarapur for new products
 - b) Expansion of R&D center in Vashi
 - c) Mild surfactants and nontoxic conservatives in Jhagadia
11. The company intended to spend around Rs 150 Cr in capex on the above projects but has only been able to do around Rs 70-75 Cr so far. The rest will be pushed on to FY22.
12. The company is aiming to maintain a yearly capex rate of Rs 100-150 Cr going forward.
13. The management maintains guidance on volume growth at 5-8% per year.
14. Fatty alcohol is close to about 60% to 65% of total RM consumption.
15. The management assured that all increases in RM costs are passed on to the customer.
16. The major issue for the industry is going to be the container shortage which is expected to last till June.
17. Fatty alcohol prices have risen above \$2000 currently.
18. The management says that Galaxy is on the lookout all the time to unearth good opportunities for acquisition that is in line with its strategy.
19. The management has stated that the EBITDA/ton for new products is greater than the average number. Due to long product cycles, as these new products will rise in share and volumes, it will also cause EBITDA/ton to rise.

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 Q3 and has managed to increase EBITDA/ton due to increased utilization and launch of new products. The company saw revenue growth despite modest volume growth mainly due to the continued rise in fatty alcohol prices and rising demand for specialty products. 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. The only credible concerns for the company are RM inflation and supply chain issues arising from the ongoing container shortage. It remains to be seen how the whole container situation 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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