

## Galaxy Surfactants Limited

Galaxy Surfactants Limited (Galaxy) is one of India's leading manufacturers of surfactants and other specialty ingredients for the personal care and home care industries. Its products find application in a host of consumer-centric personal care and home care products, including skin care, oral care, hair care, cosmetics and detergent products.

**Established global supplier to major FMCG brands:** Galaxy has evolved from being a local supplier to now a global supplier to FMCG companies across major geographies, such as India, Africa, Middle East Turkey (AMET), Americas (North and South) and Europe. Its sticky customer base comprises a host of major FMCG companies like Cavinkare, Colgate, Dabur, Henkel, L'ORÉAL, P&G and Unilever. It enjoys relationships in excess of 5 years with each of its top ten customers. Further, the product approval cycle goes beyond 2-3 years creating a moat for Galaxy to keep the competition under check.

**Strong presence in high growth markets/ segments:** Indian personal care products industry (India forms 34% of its revenue) is expected to grow at a CAGR of 8%, to touch \$ 22.5 bn by 2024. AMET region forms ~44% of its revenue and has grown by 22% CAGR over FY14-17. Growth in these regions is expected to be robust owing to growing personal care market and focus on premium quality products. Further, its acquisition of Tri-K Industries in USA in FY10 significantly enhanced its product portfolio of specialty care products and its technological capabilities whilst also extending its reach in the developed markets of USA.

**Focus on high margin specialty segment and strong R&D capabilities:** The company is focusing on high margin specialty care segment by cross selling to its existing strong customer base for Performance Surfactants. Moreover, growth in mature markets such as USA and Europe will come largely from Specialty Care Products. Accordingly, margins are likely to sustain at 12.5%+ level. The company also has strong R&D focus reflected in its 47 patents which helps in customizing products as per customer requirement and foraying in new product categories.

**Outlook & Valuation:** At the upper end of the price band, the P/E multiple works out to be 36x (pre issue equity base) of FY17 EPS. The company has seen 25% CAGR in the last 3 years in earnings. We expect the company to maintain a 20%+ growth trajectory in the coming few years, considering growing personal care markets, its increasing product offerings and geographies. **We recommend 'SUBSCRIBE' on the issue for a mid-to-long term period.**

### Key Financial

Y/E March (₹cr)	FY14	FY15	FY16	FY17
<b>Net Sales</b>	1,697	1,872	1,801	2,161
% chg	7	10	-4	20
<b>Net Profit</b>	75	68	101	145
% chg	-	-9	49	43
EBITDA (%)	12.7	10.2	13.0	12.6
<b>EPS (Rs)</b>	21	19	29	41
P/E (x)*	70	77	52	36
P/BV (x)*	0	0	0	0
RoE (%)	25	19	23	26
RoCE (%)	22	18	22	23
EV/EBITDA*	26	30	24	21
EV/Sales*	3	3	3	3

Source: RHP, Angel Research; Note: \* at upper end of the price band

## SUBSCRIBE

Issue Open: January 29, 2018  
 Issue Close: January 31, 2018

### Issue Details

Face Value: ₹10
Present Eq. Paid up Capital: ₹35.5cr
Offer for Sale: *0.63cr shares
Fresh issue: Nil
Post Eq. Paid up Capital: *₹35.5cr
Issue size (amount): *₹937 cr
Price Band: ₹1470-1480
Lot Size: 10 shares and in multiple thereafter
Post-issue implied mkt. cap: *₹5247 cr
Promoters holding Pre-Issue: 77%
Promoters holding Post-Issue: 71%

\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post-Issue Shareholding Pattern

Promoters	71%
Others	29%

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## Company background

Galaxy is one of India's leading manufacturers of surfactants and other specialty ingredients for the personal care and home care industries. Its products find application in a host of consumer-centric personal care and home care products, including, inter alia, Skin Care, Oral Care, Hair Care, Cosmetics, Toiletries and Detergent Products.

Since their incorporation in 1986, Galaxy has significantly expanded and diversified their product profile, client base and geographical footprint. Their customers include some of the leading multinational, regional and local players in the home and personal care industries. Currently, their product portfolio comprises over 200 product grades, which are marketed to more than 1,700 customers in over 70 countries.

At present, it has 7 strategically-located manufacturing facilities, out of which 5 are located in India and 2 are located overseas. It has also set-up 1 pilot plant at Tarapur, Maharashtra, for the scaling up of new products and processes from lab-scale to plant-scale. Out of 5 manufacturing facilities in India, 3 are located at Tarapur, Maharashtra, 1 is located at Taloja, Maharashtra, and 1 is located at Jhagadia, Gujarat.

### Company timeline

Year	Particulars
1986	Incorporation of our Company
1997	Sulfonation plant set up at Taloja
1999	Launch of first international office in Bangkok, Thailand
2008	Setting up of EOU at Taloja
2009	Galaxy Holdings (Mauritius) Limited became our Subsidiary
2009	Galaxy Chemicals Egypt S.A.E. became our step down Subsidiary
2009	Rainbow Holdings GmbH became our step down Subsidiary
2009	Tri-K Industries Inc. became its Step down Subsidiary
2012	Merger of subsidiary Maybrook Inc. with TRI-K Industries Inc.
2012	Commencement of production at Galaxy chemicals Egypt S.A.E.
2012	Commencement of production at Jhagadia Plant
2014	Purchase of business of Surfactants International LLC by our subsidiary TRI-K Industries Inc.
2016	Expansion at Jhagadia Plant for setting up of capacity for Mild Surfactants

Source: RHP

### Product portfolio:

- **Performance Surfactants:** The portfolio of performance surfactants comprises over 45 product grades, and includes Anionic Surfactants and Non-ionic Surfactants; and
- **Speciality Care Products:** The Speciality Care Products group comprises over 155 product grades and includes Amphoteric Surfactants, Cationic Surfactants, UV filters, Preservatives, Preservative Blends and Surfactant Blends, Specialty Ingredients such as Mild Surfactants, Syndet and Transparent Bathing Bars and Proteins, Fatty Alkanolamides and Fatty Acid Esters, and other Care Products.

## Product description

Surfactant is a surface-active substance or agent. The word “surfactant” is a shortened form of “surface-active agent”. Surfactants can be broadly defined as compounds which concentrate at surfaces (interfaces) such as water-air or water-oil when dissolved in water.

## Product Features and application

Surfactants and surface activity are controlling features in many important systems, including emulsification, detergency, foaming, wetting, lubrication, water repellence, waterproofing, spreading and dispersion, and colloid stability. Used in small quantity, surfactants are able to markedly affect the surface characteristics of a system. Surfactants find application in almost every chemical industry. The major application fields of surfactants are classified as under Household Cleaning, Industrial Cleaning, Personal Care Products, etc.

In terms of raw materials, surfactants are prepared from various feed stocks which are either petrochemicals or oleo chemicals. Presently, ~ 50 % of the surfactants are produced from oleo chemicals, while only one fourth were produced from oleo chemicals in the 1970s.

## Issue Details

This IPO is an offer for sale of up to 6,331,674 Equity Shares of face value of Rs10 each by the Selling Shareholders. Issue would be worth ₹937 cr. OFS is being offered by some of its pre-issue investors and promoters.

### Exhibit 1: Pre and post-IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	2,72,91,398	77%	2,51,45,548	71%
Pre IPO investors	81,63,354	23%	39,77,534	11%
Public			63,31,674	18%
	3,54,54,752	100%	3,54,54,756	100%

Source: RHP, Angel Research

## Objects of the offer

This IPO intends to achieve the benefits of listing the equity shares on the stock exchanges via sale of equity shares by the selling shareholders.

## Key Management Personnel

### Brief profiles of our Directors

**Mr. Shekhar Ravindranath Warriar** is the Chairman and a Non-Executive Independent Director of the Company. He has been associated with our Company since June 29, 2007. He was a fellow member of The Institute of Cost Accountants of India. He has been associated with Hindustan Unilever Limited for more than 30 years in various capacities.

**Mr. Unnathan Shekhar** is the Managing Director of our Company. He has been associated with the Company since May 20, 1986. He holds a Bachelors Degree in Chemical Engineering from the University Department of Chemical Technology, Mumbai and a Post Graduate Diploma in Management from Indian Institute of Management, Calcutta. He has over 30 years of experience in the chemical manufacturing industry.

**Mr. Kasargod Ganesh Kamath** is the Executive Director (Finance) and the Chief Financial Officer. He has been associated with the Company since September 10, 2004. He is a qualified Company Secretary from The Institute of Company Secretaries of India and a Cost Accountant from the Institute of Cost and Work Accountants of India.

**Mr. Natarajan K. Krishnan** is an Executive Director and the Chief Operating Officer of the Company. He has been associated with our Company since April 21, 1993. Since joining Galaxy, he has headed diverse functions including Finance, IT, Business Creation, Business Commercial, Global Sourcing and Supply Chain and was designated as Chief of Operations in December 2009.

**Mr. Gopalkrishnan Ramakrishnan** is a Non-Executive Director of the Company. He has been associated with our Company since May 20, 1986. He holds a Masters Degree in Commerce from University of Bombay. He is a 'fellow member' of The Institute of Chartered Accountants of India and the Institute of Cost and Works Accountants of India. He is also a qualified Company Secretary from The Institute of Company Secretaries of India.

## Outlook & Valuation

At the upper end of the price band, the P/E multiple works out be 36x (pre issue equity base) of FY17 EPS. The company has seen 25% CAGR in the last 3 years in earnings. We expect the company to maintain a 20%+ growth trajectory in the coming few years, considering growing personal care markets, its increasing product offerings and geographies. **We recommend 'SUBSCRIBE' on the issue for a mid-to-long term period.**

## Key risks

### Fluctuations in raw material prices

Galaxy usually does not enter into long-term supply contracts with any of our raw material suppliers and typically source raw materials from third-party suppliers or the open market. The absence of long-term contracts at fixed prices exposes it to volatility in the prices of raw materials and an inability to pass these costs onto its customers, which may reduce its profit margins.

### Forex fluctuation risk

It generate over 60% of sales internationally while there is some natural hedge as it also import a substantial part of raw materials. However, there is still some uncovered forex risk which can impact margins.

### Changing preferences, advancement in technology

The markets in which company's customers compete are characterized by consumers and their rapidly changing preferences, advancement in technology and other related factors including lower manufacturing costs. Hence, the company may be affected by any disruptions in the industry.

**Consolidated Income Statement**

Y/E March (` cr)	FY14	FY15	FY16	FY17
<b>Total operating income</b>	1,696.7	1,871.8	1,801.4	2,160.8
% chg	7.4	10.3	-3.8	19.9
<b>Total Expenditure</b>	1,451.5	1,652.7	1,540.7	1,858.6
Raw Material	1,226.6	1,381.4	1,254.7	1,579.9
Personnel	104.3	128.5	144.4	143.3
Others Expenses	120.7	142.8	141.7	135.4
<b>EBITDA</b>	245.2	219.1	260.7	302.2
% chg	68.2	-10.6	19.0	15.9
(% of Net Sales)	14.5	11.7	14.5	14.0
Depreciation & Amortisation	55.3	45.1	45.2	48.3
<b>EBIT</b>	190.0	174.1	215.5	253.9
% chg	98.2	-8.4	23.8	17.8
(% of Net Sales)	11.2	9.3	12.0	11.7
Interest & other Charges	41.5	36.7	32.8	30.6
Other Income	4.4	3.5	5.9	11.4
(% of Sales)	0.3	0.2	0.3	0.5
<b>Recurring PBT</b>	152.9	140.9	188.5	234.7
% chg	229.3	-7.8	33.8	24.5
Tax	47.2	44.5	60.3	58.5
<b>PAT (reported)</b>	75.0	68.0	101.4	145.5
% chg	-	-9.4	49.2	43.4
(% of Net Sales)	4.4	3.6	5.6	6.7
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	21.2	19.2	28.6	41.0
% chg	-	-9.4	49.2	43.4

Source: RHP

**Consolidated Balance Sheet**

Y/E March (₹cr)	FY14	FY15	FY16	FY17
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	35.5	35.5	35.5	35.5
Reserves & Surplus	269.5	325.2	406.3	534.5
<b>Shareholders' Funds</b>	<b>304.9</b>	<b>360.6</b>	<b>441.7</b>	<b>570.0</b>
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Loans</b>	<b>417.3</b>	<b>431.7</b>	<b>403.2</b>	<b>394.1</b>
Other Liab & Prov	29.9	28.4	29.1	31.1
<b>Total Liabilities</b>	<b>752.1</b>	<b>820.7</b>	<b>873.9</b>	<b>995.2</b>
<b>APPLICATION OF FUNDS</b>				
Net Block	474.1	459.4	435.8	472.6
Capital Work-in-Progress	6.1	6.5	50.8	10.3
Investments	0.0	0.0	-	-
<b>Current Assets</b>	<b>516.3</b>	<b>566.0</b>	<b>583.9</b>	<b>754.6</b>
Inventories	230.4	246.0	235.8	317.4
Sundry Debtors	204.5	221.3	250.2	346.3
Cash	20.9	19.1	16.4	25.8
Loans & Advances	60.5	79.7	81.5	65.1
Other Assets	-	-	-	-
<b>Current liabilities</b>	<b>270.4</b>	<b>236.3</b>	<b>226.5</b>	<b>281.5</b>
<b>Net Current Assets</b>	<b>245.9</b>	<b>329.7</b>	<b>357.4</b>	<b>473.1</b>
Other Non Current Asset	26.1	25.0	30.0	39.2
<b>Total Assets</b>	<b>752.1</b>	<b>820.7</b>	<b>873.9</b>	<b>995.1</b>

Source: RHP

**Consolidated Cash Flow Statement**

Y/E March (₹ cr)	FY14	FY15	FY16	FY17
<b>Restated Profit / (Loss) before tax &amp; provisions</b>	<b>55</b>	<b>19</b>	<b>122</b>	<b>113</b>
Adjusted for:				
Depreciation	5	7	8	11
Finance Cost	11	10	13	13
<b>Total</b>	<b>9</b>	<b>17</b>	<b>11</b>	<b>25</b>
Operating Profit / (Loss) before working capital changes	64	36	133	137
Working capital changes	-20	15	-11	-23
<b>Net Cash Inflow from Operating Activities before tax</b>	<b>45</b>	<b>50</b>	<b>123</b>	<b>114</b>
Tax (Paid) / Refund Received	3	-4	-9	-15
<b>Net Cash Inflow from Operating Activities</b>	<b>47</b>	<b>46</b>	<b>114</b>	<b>98</b>
Purchase of property, plant and equipments (including CWIP)	-8	-22	-27	-39
<b>Net Cash Inflow / (Outflow) from Investing Activities</b>	<b>1</b>	<b>-22</b>	<b>-22</b>	<b>-43</b>
Cash Inflow / (Outflow) from Financing Activities				
Proceed from share capital & Premium	0	0	0	44
Conversion of Debenture in Equity	0	0	0	-37
Increase / (Decrease) in Long term borrowings	-5	-3	12	-4
Increase / (Decrease) in Short term borrowings	5	-8	-14	8
Dividend and dividend distribution tax paid during the year	-1	-1	-4	-8
Interest and other finance charges	-11	-10	-13	-13
<b>Net Cash Inflow / (Outflow) from Financing Activities</b>	<b>-13</b>	<b>-22</b>	<b>-20</b>	<b>-10</b>
Net Increase / (Decrease) in Cash and Cash Equivalents	36	1	72	45
Opening balance of cash and cash equivalents	78	114	115	188
Closing balance of cash and cash equivalents	114	115	188	233

Source: RHP



**Key Ratios**

Y/E March	FY14	FY15	FY16	FY17
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	69.9	77.2	51.7	36.1
P/CEPS	16.3	18.3	13.0	9.3
P/BV	17.2	14.6	11.9	9.2
EV/Sales	3.3	3.0	3.1	2.6
EV/EBITDA	26.3	29.7	24.1	20.7
EV / Total Assets	7.5	6.9	6.4	5.6
<b>Per Share Data (₹)</b>				
EPS (Basic)	21.2	19.2	28.6	41.0
EPS (fully diluted)	21.2	19.2	28.6	41.0
Cash EPS	90.6	80.7	114.2	159.1
Book Value	86.0	101.7	124.6	160.8
<b>Returns (%)</b>				
ROCE	22.1	18.4	22.3	23.1
Angel ROIC (Pre-tax)	22.0	18.3	23.4	23.3
ROE	24.6	18.8	23.0	25.5
<b>Turnover ratios (x)</b>				
Asset Turnover (Gross Block)	2.3	2.4	2.3	2.5
Inventory / Sales (days)	50	48	48	54
Receivables (days)	44	43	51	58
Payables (days)	52	42	44	47
Working capital cycle (days)	41	49	54	65

Source: RHP, Angel Research

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