

JULY 5, 2019

	4-Jul	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	39,908	0.2	(0.4)	2.7
NIFTY Index	11,947	0.3	(0.6)	2.4
NSEBANK Index	31,472	0.3	(0.4)	4.6
NIFTY 500 Index	9,777	0.2	(1.0)	0.9
CNXMcap Index	17,814	(0.0)	(1.7)	(2.4)
BSESMCAP Index	14,337	0.1	(3.8)	(4.7)
<b>World Indices</b>				
Dow Jones	26,966	0.7	6.4	2.2
Nasdaq	8,170	0.8	8.5	3.5
FTSE	7,604	(0.1)	5.3	2.1
NIKKEI	21,702	0.3	4.4	(0.5)
Hangseng	28,796	(0.2)	7.3	(3.6)
Shanghai	3,005	(0.3)	5.0	(7.4)

<b>Value traded (Rs cr)</b>	4-Jul	% Chg Day
Cash BSE	2,003	19.1
Cash NSE	28,001	6.5
Derivatives	1,971,511	101.2

<b>Net inflows (Rs cr)</b>	3-Jul	MTD	YTD
FII	(1,281)	(3,697)	75,383
Mutual Fund	327	(220)	8,514

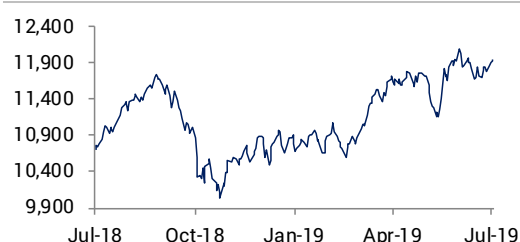
<b>Nifty Gainers &amp; Losers</b>	Price	Chg	Vol
4-Jul	(Rs)	(%)	(mn)
<b>Gainers</b>			
UPL Ltd	698	7.1	12.5
Bharti Airtel	363	2.7	8.4
Indiabulls Housing	704	1.9	30.9
<b>Losers</b>			
Yes Bank Ltd	96	(3.5)	108.1
Tata Steel	495	(2.9)	7.3
Titan Co Ltd	1,290	(2.9)	2.9

<b>Advances / Declines (BSE)</b>					
4-Jul	A	B	T	T total	% total
Advances	257	465	44	766	100
Declines	197	501	36	734	96
Unchanged	4	36	13	53	7

	4-Jul	% Chg		
		1 Day	1 Mth	3 Mths
<b>Commodity</b>				
Crude (US\$/BBL)	63.3	(0.1)	4.3	(10.1)
Gold (US\$/OZ)	1,416.1	(0.2)	6.6	9.7
Silver (US\$/OZ)	15.3	(0.1)	3.2	1.1

<b>Debt / Forex Market</b>	4-Jul	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.7	6.8	7.0	7.3
Re/US\$	68.5	68.9	69.3	69.2

## Nifty



Source: Bloomberg

## News Highlights

- ▶ India expects economic growth to rebound from a five-year low without sacrificing budget goals, as it pins hopes on political stability to revive demand and investments. Real gross domestic product growth for the fiscal year started April 1 is projected at 7 percent. (Mint)
- ▶ Weeks after India raised duties on 28 American goods, the US on Thursday dragged New Delhi to the World Trade Organization (WTO) for according "less favorable treatment" to its products. (Mint)
- ▶ The Ministry of Corporate Affairs has ordered a probe in **Jet Airways** and its group companies by the Serious Fraud Investigation Office (SFIO). The order is supposedly on the basis of an inspection report by MCA Western Director. (ET)
- ▶ **Dewan Housing Finance Corp** has delayed payment on some of its obligations, plans to ask banks to lend 15 billion rupees (\$217 million) every month to help revive the company. (ET)
- ▶ The Competition Commission has ordered a detailed probe against carmaker **Maruti Suzuki** for alleged resale price maintenance arrangement with dealers. (ET)
- ▶ **Yes Bank** has acquired over 9% shares of battery maker Eveready by invoking pledged shares following loan default by a group company. (BS)
- ▶ **Tata Motors** has decided to implement periodic production cuts at its passenger-car plants and focus on retail sales to prop up dealerships amid an industry-wide slowdown in passenger vehicle sales. (ET)
- ▶ In a bid to become a universal bank, **Srei** has decided to consolidate all its lending business into one vertical - Srei Equipment Finance. (BS)
- ▶ **GMR Infrastructure Ltd** has signed an agreement with Adani Power Ltd for sale of entire stake of 47.62% in GMR Chhattisgarh Energy Ltd (GCEL) to Adani Power for an estimated value of Rs 30 bn. (ET)
- ▶ The National Company Law Appellate Tribunal has directed the National Company Law Tribunal to pass orders on consolidating the bankruptcy proceedings of **Videocon group** companies within three weeks. (ET)
- ▶ **L&T Finance Holdings** arm received \$550 million in an External Commercial Borrowing investment round from World Bank's arm, BNP Paribas, Citi Bank and DBS Bank. (ET)
- ▶ **Usha Martin** has completed the transfer of the operative iron-ore mine and coal mine under development to Tata Sponge Iron. (BS)
- ▶ **Hindalco** will have to tackle European antitrust objections on its plan to buy aluminum producer Aleris Corporation to expand as a supplier to the car industry. (Mint)

## What's Inside

- ▶ **Company Visit Note:** Galaxy Surfactants Ltd (GSL)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI = Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

## Company Visit Note

# GALAXY SURFACTANTS LTD (GSL)

### Stock Details

Market cap (Rs mn)	:	44882
52-wk Hi/Lo (Rs)	:	1410 / 872
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	18,092
Shares o/s (mn)	:	35

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY17	FY18	FY19
Revenue	22,480	24,625	27,630
Growth (%)	20.1	9.5	12.2
EBITDA	2,714	2,877	3,534
EBITDA margin (%)	12.1	11.7	12.8
PAT	1,476	1,580	1,910
EPS	41.6	44.6	53.9
EPS Growth (%)	2.5	21.7	42.9
BV (Rs/share)	162	203	247
Dividend/share (Rs)	6.0	7.0	8.0
ROE (%)	25.7	22.0	21.8
ROCE (%)	25.8	24.5	27.9
P/E (x)	30.3	28.3	23.4
EV/EBITDA (x)	17.6	16.5	13.3
P/BV (x)	7.8	6.2	5.1

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	70.9	70.9	70.9
FII	3.1	3.1	3.1
DII	8.7	8.7	8.7
Others	17.3	17.3	17.3

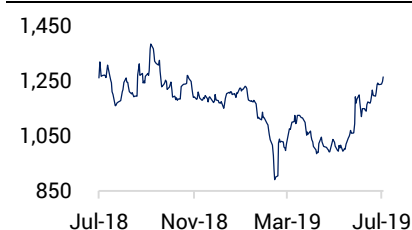
Source: Bloomberg

### Price Performance (%)

(%)	1M	3M	6M
Galaxy Surfactants	7.9	23.0	3.8
Nifty	(0.6)	3.0	11.4

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

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## PRICE RS.1262

## NOT RATED

Galaxy Surfactants (GSL) is currently India's largest manufacturer of vegetable oil (oleochemical)-based surfactants and specialty care products for the home and personal care (HPC) industries, with an installed capacity of ~368,000 tonnes. The company recently expanded its performance surfactants (PS) capacity by ~50,000 tonnes, which will suffice its volume growth for the next two to three years. GSL is a good proxy to Indian FMCG premiumisation, and has a strong franchise with dominant market share in India and Africa-Middle East markets.

### Key highlights

- ❑ GSL primarily operates in (i) performance surfactants (PS) and (ii) specialty ingredients (SI). PS and SI accounts for 63% and 37% of revenue, respectively. With over 200+ products (60 are patented), it serves 1750+ clients in 75+ countries with export accounting for 63% of total sales. The company is the preferred supplier to global, regional and local FMCG brands with a sales share of 56%, 10% and 34%, respectively.
- ❑ The company recently expanded its PS capacity by 50,000 at Jhagadia. Ramp-up of the new capacity and better utilization at existing facilities (currently at ~72%) will help achieve expected volume growth of ~8-10% per annum. In addition, GSL has outlined capex of Rs1.5 bn for FY20 for broadening the specialty care product portfolio and R&D. The company added few products in the recent past. They are GLI-21, Non-Toxic Preservatives such as Galguard Trident and NT.
- ❑ The global surfactants industry (size US\$ 35bn) is growing at 4-5% annually and expected to touch US\$ 45bn by FY24, driven by 1) volume growth in developing nations due to lower penetration of HPC (Home & Personal Care) products and 2) value growth from developed nations. India surfactants industry is expected to grow from US\$1.5 bn to US\$2.3 bn in 2024.
- ❑ The AMET (Africa, Middle East and Turkey) region accounts for a significant (~32%) portion of GSL's revenue. During FY19, AMET region degrew by 4.7% YoY however, excluding Egypt the rest of Africa, ME, and Turkey reported healthy volume growth at 17.1%. Egypt contributes ~45% to AMET market sales and ~19% to overall revenue in FY18.
- ❑ Both the segments (PS and SI) are expected to grow in the coming years on the back of capacity expansion. In addition, increasing share of SS and focus on R&D, will help the company to strengthen its operating performance and profitability in the coming years. Top 10 customers' accounts for ~55% of the revenue (concentration risk).

### Valuation and Outlook

GSL is taking advantage of the opportunities available both in the global as well as domestic markets by adding of new capacities, customer acquisition, investment in R&D to develop newer specialty care products and cross sell products to existing customers. It leverages its long-standing relationships with clients to supply specialty personal care ingredients, which generate better margins. Despite having a higher contribution from PS, GSL has been able to deliver return ratios of over 20% in the last four years. The company focus on enhancing its product mix gradually over the next 4-5 years. This will help the

company to improve its EBITDA/tonne from the current levels of Rs16,400 and return ratios. However, in FY20E, due to increased share of PS (benefit of capacity expansion) EBITDA/tonne is likely to remain in the range of Rs15,000-17,000. At CMP, the stock is trading at 23.4x FY19 earnings.

### Favourable macros with share of oleochemicals in the HPC segments on the rise

Surfactants can be prepared from either petrochemicals or oleochemicals. Over the past few years, the use of oleochemicals in the surfactants sector has continued to rise as awareness on natural products increases. GSL is primarily engaged in the manufacture of natchem (oleo) based surfactants (c.70% of the GSL's portfolio is natchem-based) and is hence clearly in a position to benefit from this shift. According to the Acmite, the surfactants market, valued at ~US\$ 35bn at the end of 2018 is projected to grow at a CAGR of 4.4% to touch ~US\$ 45bn in 2024. The larger portion of the growth is expected to come from Asia Pacific region which is expected to grow at a CAGR of 5.8% during the same period. Amongst the category, HPC could be the fastest growing segment, which is expected to grow from ~US\$ 7bn to ~US\$ 10bn during the same period.

#### Surfactant market (US\$ bn)

Region	2015	2018	2024
Western Europe	7.66	8.52	10.52
North America	8.74	9.77	12.2
Asia Pacific	7.97	9.44	13.22
Japan	2.61	2.88	3.52
Rest of the World	3.68	4.26	5.7
Total	30.65	34.88	45.16

Source: Company

#### End Use Surfactant market (US\$ bn)

Category	2015	2018	2024
Personal Care	6.13	7.29	10.27
Household Cleaning	10.73	11.87	14.49
Industrial Application	9.81	11.23	14.7
I & I Cleaning	1.99	2.22	2.74
Others	1.99	2.28	2.96
Total	30.65	34.88	45.16

Source: Company

As far as the domestic market is concerned, the India surfactants industry is expected to grow from US\$1.5 bn to US\$2.3 bn in 2024 and in term of volume it is expected to post a CAGR of ~6% for the next 4-5 years. As far as GSL is concerned, AMET region, which accounts for a significant portion of revenue, is expected to grow from US\$ 0.9bn to US\$ 1.2 bn in 2024.

#### India - End Use Surfactant market (US\$ bn)

Category	2015	2018	2024
Household Cleaning	0.42	0.49	0.65
I & I Cleaning	0.11	0.13	0.17
Personal Care	0.24	0.3	0.47
Industrial Application	0.45	0.54	0.78
Others	0.13	0.15	0.21
Total	1.35	1.61	2.28

Source: Company

### Large capex out of the way; internal accrual to fund future capex

During FY12-14, Galaxy undertook a major capex plan of ~Rs3 bn and set up a Greenfield expansion at Jhagadia as well as a new production facility in Egypt. With an installed capacity of ~3.68 lakh tonnes (current utilisation ~72%), its seven state of art facilities, zero discharge manufacturing plants are located in India (5), Egypt (1) and the US (1). Egypt facility is operating at lower capacity due to headwinds in terms of down-trading in Egypt on account of high inflation and slowdown in end-markets in 2QFY19 and 3QFY19.

### Manufacturing facilities

Location	No. of units	Capacity (tonnes)
Tarapur, Maharashtra	3	31,995
Taloja, Maharashtra	1	160,500
Jhagadia, Gujarat	1	83,500
Suez, Egypt	1	91,500
New Hampshire, USA	1	600

Source: Company

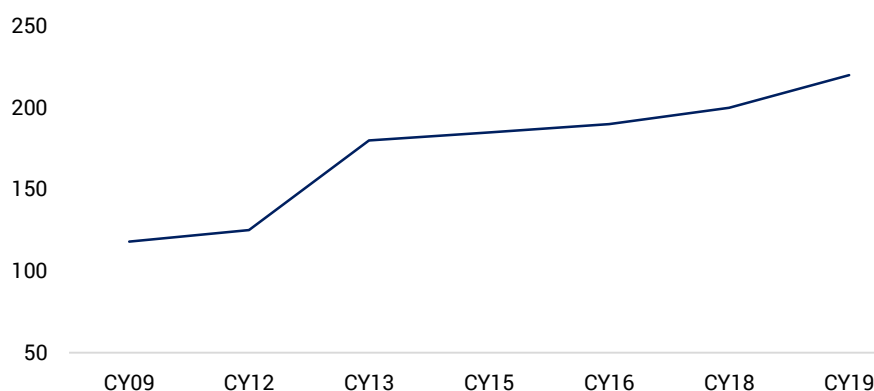
The company recently expanded its PS capacity by 50,000 at Jhagadia, which has increased its overall capacity by ~12%. Ramp-up of the new capacity and better utilization of existing facilities (currently at ~72%) will help achieve expected volume growth of ~8-10% per annum. In addition, GSL has outlined capex of Rs1.5 bn for FY20 for broadening the specialty care product portfolio and R&D. Capex details are outlined below:

- Rs800 mn for pilot plant for new product R&D,
- Rs400 – 500 mn for TRI-K,
- Rs80 mn for R&D infrastructure, and
- Remaining is allocated for debottlenecking activities.

### Strong R&D capabilities

In line with its motto 'Consumer to chemistry', Galaxy undertakes collaborative product development with its customers, which helps its customers choose the right technology with the right applications. This model has not only allowed the company to adopt an innovation funnel model, which allows it to customise products in line with customer expectations and end-user preferences, but also simultaneously permits shorter lead times. Since 2002, Galaxy has been granted a total of 60 patents globally.

### Product Evolution over the years



Source: Company

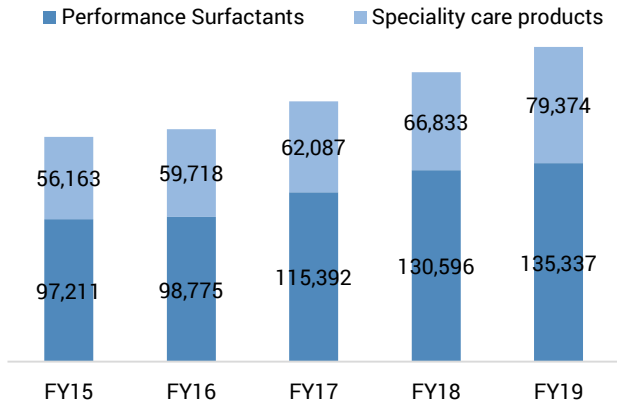
### Focus on value added specialty surfactants

It recently added new specialised surfactants – amino acid based for foaming and mildness, few products for sparkling effect and appearance, it also launched Glutamate, Glycinate, Torrets, Sarcosinate, GLI 21 and other sulfate free products. The higher share of SI in the recent past has helped the company to improve its EBITDA/t to Rs16,458. The management had indicated that, ratio of PS and SI will continue to remain in the level of 60:40, with a variation for a year or so, depending upon the commissioning of capacity.

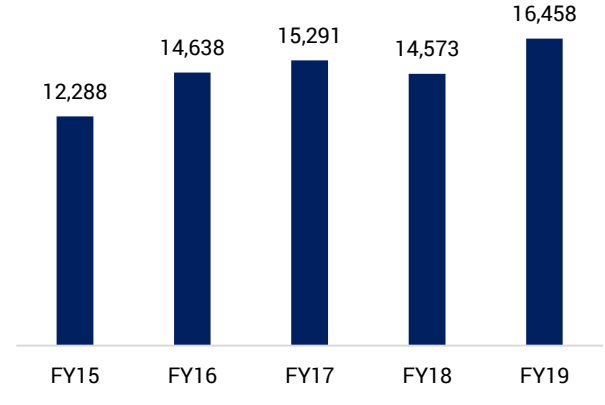
Management stated that in FY20, the share of PS is likely to increase (benefit of capacity expansion flows in), which will help the company to maintain its EBITDA/tonne in the range of Rs15,000-17,000. In FY21, the contribution from SS will again bounce back to the level of 35-40%, backed by new capacity.

**Volume grew at 7% CAGR**

**EBITDA/T trend (Rs)**



Source: Company

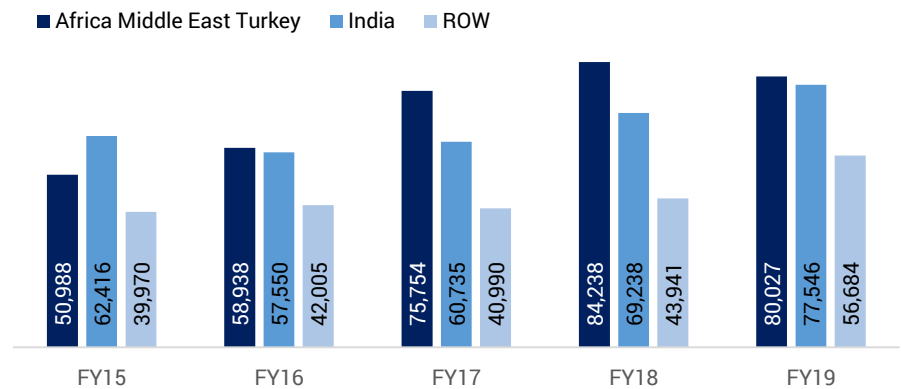


Source: Company

**Expanding into newer markets in AMET to offset headwinds in Egypt**

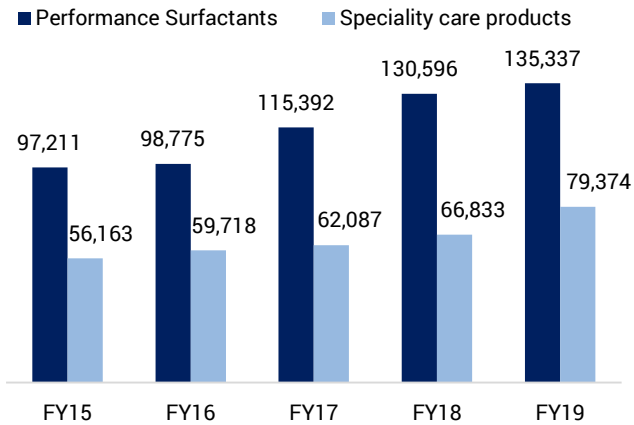
The AMET region accounts for a significant portion of GSLS’ revenue ~30% in FY19. The company faced headwinds due to down-trading in Egypt on account of high inflation and slowdown in end-markets starting H2FY19. The AMET market shrank by 5% YoY in volume terms during (excluding Egypt, it grew at 9%). Egypt contributes ~45% to AMET market sales and ~19% to overall revenue in FY18. To mitigate this, the company is actively exploring adjacent geographies such as Kenya, Libya, Lebanon, UAE, and Jordan. It will help in improving volumes gradually; however, it is likely to increase logistic costs for supplying materials to newer markets. Management expects a recovery in the next few quarters as the company has diverted the capacity to other growing countries and received approvals.

**Geography wise volume breakup (tonnes)**



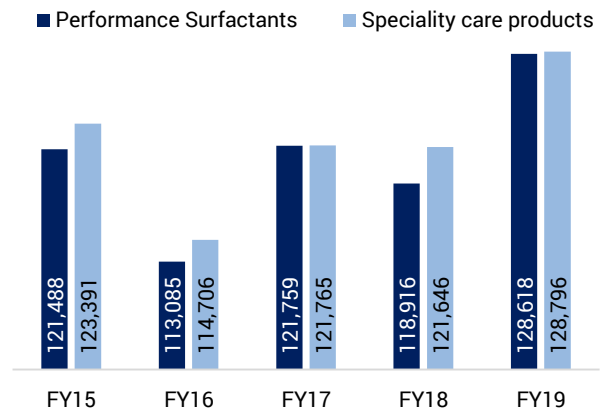
Source: Company

**7% volume CAGR (tonnes)...**



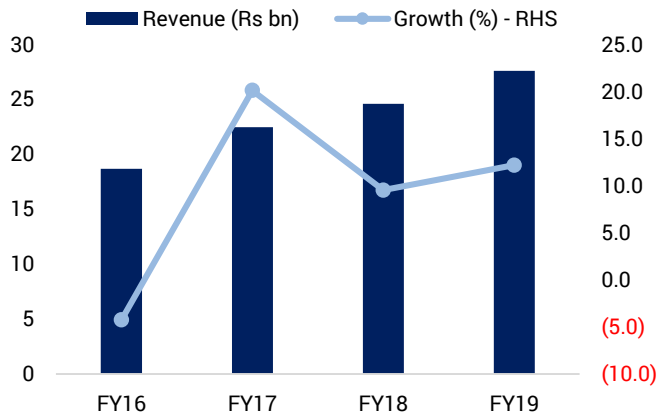
Source: Company

**...coupled with firm realisation (Rs/t)...**



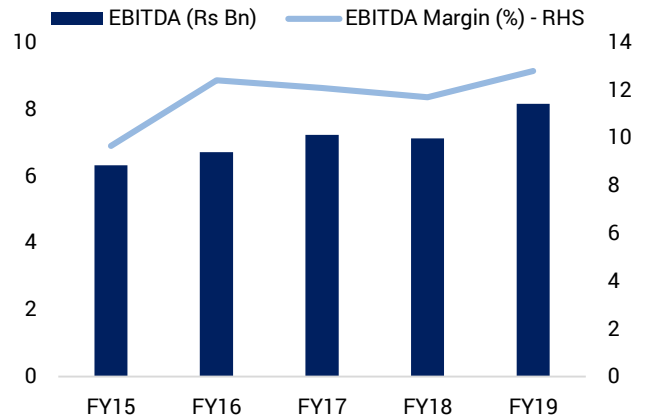
Source: Company

**...supported ~7% revenue CAGR (Rs Bn)**



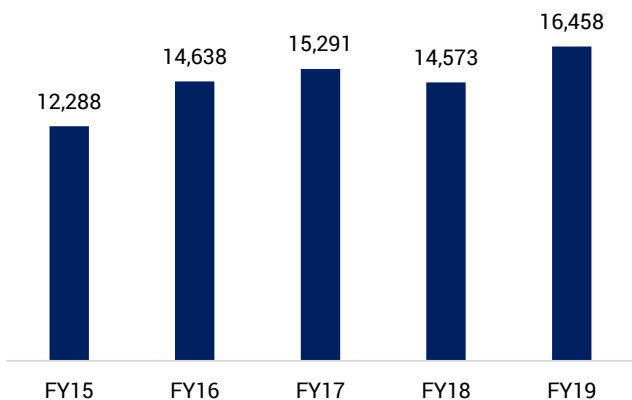
Source: Company

**EBITDA margin in the range of 11.5-13%**



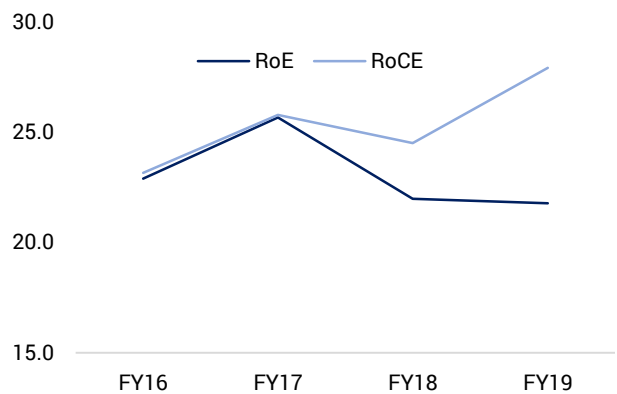
Source: Company

**EBITDA/T (Rs) improved over the years**



Source: Company

**Return ratios over 20%**



Source: Company

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY16	FY17	FY18	FY19
<b>Net sales</b>	<b>18,710</b>	<b>22,480</b>	<b>24,625</b>	<b>27,630</b>
growth (%)	(4.3)	20.1	9.5	12.2
Operating expenses	16,390	19,767	21,748	24,096
<b>EBITDA</b>	<b>2,320</b>	<b>2,714</b>	<b>2,877</b>	<b>3,534</b>
growth (%)	23.1	17.0	6.0	22.8
Depreciation & amortisation	452	472	485	512
<b>EBIT</b>	<b>1,868</b>	<b>2,242</b>	<b>2,392</b>	<b>3,022</b>
Other income	59	104	101	47
Interest paid	312	272	306	300
<b>PBT</b>	<b>1,615</b>	<b>2,074</b>	<b>2,188</b>	<b>2,769</b>
Tax	603	598	607	859
Effective tax rate (%)	37.4	28.8	27.8	31.0
Net profit	1,011	1,476	1,580	1,910
Reported Net profit	1,011	1,476	1,580	1,910
Non-recurring items	-	-	-	-
<b>Adjusted Net profit</b>	<b>1,011</b>	<b>1,476</b>	<b>1,580</b>	<b>1,910</b>
growth (%)	43.8	2.5	21.7	42.9

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY16	FY17	FY18	FY19
Pre-tax profit	1,635	1,476	1,580	2,769
Depreciation	452	472	485	512
Chg in working capital	54	(1,135)	(897)	82
Total tax paid	(618)	(568)	(583)	(859)
Other operating activities	318	866	855	253
<b>Operating CF</b>	<b>1,842</b>	<b>1,110</b>	<b>1,442</b>	<b>2,757</b>
Capital expenditure	(666)	(426)	(552)	(1,232)
Chg in investments	-	-	-	(1)
Other investing activities	16	(4)	20	47
Investing CF	(650)	(430)	(532)	(1,186)
<b>FCF</b>	<b>1,176</b>	<b>685</b>	<b>890</b>	<b>1,525</b>
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(364)	(133)	(485)	(557)
Dividend (incl. tax)	-	(173)	(127)	(330)
Other financing activities	(820)	(257)	(285)	(300)
<b>Financing CF</b>	<b>(1,184)</b>	<b>(563)</b>	<b>(897)</b>	<b>(1,188)</b>
Net chg in cash & bank bal.	8	117	14	384
<b>Closing cash &amp; bank bal</b>	<b>147</b>	<b>257</b>	<b>271</b>	<b>250</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY16	FY17	FY18	FY19
Cash & Bank balances	147	257	271	250
Other Current assets	5,692	7,307	8,918	8,724
Investments	0	1	1	-
Net fixed assets	4,757	4,575	4,648	5,938
Goodwill & intangible assets	108	87	69	75
Other non-current assets	300	646	648	692
<b>Total assets</b>	<b>11,004</b>	<b>12,872</b>	<b>14,554</b>	<b>15,680</b>
Current liabilities	3,009	3,531	4,158	4,050
Borrowings	3,391	3,340	2,931	2,542
Other non-current liabilities	187	253	277	320
Total liabilities	6,587	7,123	7,366	6,913
Share capital	355	355	355	355
Reserves & surplus	4,063	5,395	6,833	8,413
Shareholders' funds	4,417	5,749	7,188	8,767
Minority interest	-	-	0	0
<b>Total equity &amp; liabilities</b>	<b>11,004</b>	<b>12,872</b>	<b>14,554</b>	<b>15,680</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY16	FY17	FY18	FY19
<b>Profitability and return ratios (%)</b>				
EBITDAM	12.4	12.1	11.7	12.8
EBITM	10.3	10.4	10.1	11.1
NPM	5.4	6.6	6.4	6.9
RoE	22.9	25.7	22.0	21.8
RoCE	23.2	25.8	24.5	27.9
<b>Per share data (Rs)</b>				
O/s shares	35.5	35.5	35.5	35.5
EPS	28.5	41.6	44.6	53.9
FDEPS	28.5	41.6	44.6	53.9
CEPS	41.3	54.9	58.3	68.3
BV	124.6	162.2	202.8	247.3
DPS	6.0	6.0	7.0	8.0
<b>Valuation ratios (x)</b>				
PE	44.2	30.3	28.3	23.4
P/BV	10.1	7.8	6.2	5.1
EV/EBITDA	20.7	17.6	16.5	13.3
EV/Sales	2.4	2.0	1.8	1.6
<b>Other key ratios</b>				
D/E (x)	0.9	0.7	0.5	0.3

Source: Company, Kotak Securities – Private Client Research



## RATING SCALE

### Definitions of ratings

<b>BUY</b>	–	We expect the stock to deliver more than 15% returns over the next 12 months
<b>ADD</b>	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
<b>REDUCE</b>	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
<b>SELL</b>	–	We expect the stock to deliver < -5% returns over the next 12 months
<b>NR</b>	–	<b>Not Rated.</b> Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
<b>SUBSCRIBE</b>	–	We advise investor to subscribe to the IPO.
<b>RS</b>	–	<b>Rating Suspended.</b> Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
<b>NA</b>	–	<b>Not Available or Not Applicable.</b> The information is not available for display or is not applicable
<b>NM</b>	–	<b>Not Meaningful.</b> The information is not meaningful and is therefore excluded.
<b>NOTE</b>	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

### FUNDAMENTAL RESEARCH TEAM

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