

Galaxy Surfactants

SECTOR: CHEMICALS



EXPENSIVE

Issue Snapshot

Issue Open:	13-May-11
Issue Close:	19-May-11
Price Band (INR)	325 - 340
Issue Size (INR Mn)	1,927 - 2,016
Market Cap (INR Mn)	7,688.6 - 8,043.5

Issue Size (No. of Shares)	5,930,000
QIB:	2,965,000
Non-Institutional:	889,500
Retail:	2,075,500

Face Value (INR):	10.0
Book Value as of FY10 (INR):	85.1

Capital Structure:

Pre Issue Equity (INR Mn)	177.3
Post Issue Equity (INR Mn)	236.6

Shareholding Pattern	Pre Issue (%)	Post issue (%)
Promoter & Promoter Group	76.0	56.9
Public	24.0	43.1
Total	100	100
Total Shares	17,727,376	23,657,376

Objects of the Issue

Particulars	INR Mn
Setting up new manufacturing facility in Suez, Egypt	2,123
Setting up new manufacturing facility in Gujarat	701
Capacity Expansion at Tarapur	470
Capacity Expansion at Taloja	135
General corporate purposes	[•]
Total	[•]

Website : www.galaxysurfactants.com

Galaxy Surfactants is engaged in manufacturing and marketing of surfactants and specialty chemicals in India for the Personal and Home Care (PHC) industry. The company has three (3) manufacturing plants located at Tarapur, two (2) at Taloja, Maharashtra and one (1) in USA. Galaxy to its credit has 18 patents in India and 10 patents in USA. In addition, it has also applied for 8 patents in India and 1 patent in USA.

Investment Summary

Personal Care Market to grow at a CAGR of 5-6%

As per the Kline & Company presentation 2009, the global personal care ingredient market is expected to grow at about 5-6 % per annum. Global market size of Personal Care industry was valued at USD 145 billion in 2007 is expected to reach USD 218 billion by 2015 at CAGR of 5%.

Expanding Manufacturing facilities

In order to cash in on the burgeoning demand in the personal and home care industry, Galaxy is currently expanding its existing manufacturing facilities along with setting up new manufacturing facilities in Gujarat and Egypt. This will result in expansion of total capacity to 348,460mtpa from the current 154,230mtpa by FY13. The total capital outlay is earmarked at INR 3,429mn.

Wide Range of Product Offering and End Users

The company's products find applications in skin care, hair care, oral care, body wash, sun care, household cleaners and fabric care segments. The company has a portfolio of 66 products with sales spread over 70 countries.

Marquee Clientele

The company boasts of a marquee clientele such as Beiersdorf, Ecolab, Henkel, Diversey, L'Oreal, Reckitt Benckiser and Unilever. In Domestic market, its customers include Ayur, Cavin Kare, Dabur, Emami, Hindustan Unilever, Henkel, ITC, L'Oreal, Marico, Procter & Gamble Home Products Limited to name a few.

Valuation

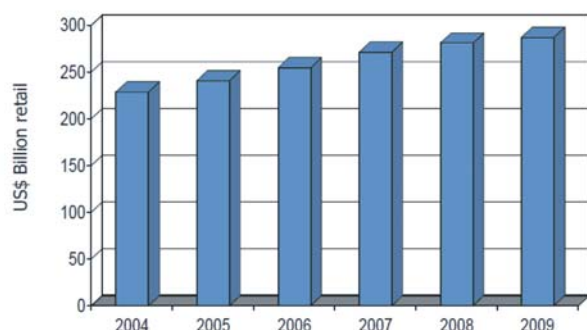
At the upper band of INR 340, the stock is available at a P/E multiple of 14.1x based on 9MFY11 annualized post-issue EPS of INR 24.1. Two-fold increase in manufacturing capacity aided by growth in personal care industry will contribute to the revenue growth from FY13. On comparison with other entities, the offer at 14x for FY11 (annualized) seems 'Expensive'.

Investment Rationale

Personal Care Market to grow at a CAGR of 5-6%

As per the Kline & Company Presentation, the global personal care market is approaching USD 300 billion at retail level in 2009. The industry is expected to grow at 5-6% CAGR.

Global Retail Sales, 2003 - 2009



The estimated size of the global personal care ingredient industry was USD 8-10 billion in 2009 and is expected to grow at about 5-6 % per annum. The Indian Personal care market is growing at more than 10% CAGR over the last three years.

Expanding Manufacturing facilities

Galaxy is currently expanding its existing manufacturing facilities along with setting up new manufacturing facilities in Gujarat and Egypt. This will result in expansion of total capacity to 348,460mtpa from the current 154,230mtpa by FY13. The total capital outlay is earmarked at INR 3,429mn.

The installed capacity in Gujarat will be 77,000mtpa which will be operational by August 2011, whereas in Suez, Egypt the installed capacity will be 90,000mtpa which will be operational by August 2012.

Tarapur unit would see an additional installed capacity of 2,750mtpa operational by May 2012 while the Taloja unit capacity would be increased by 5,000mtpa. The additional capacity would commence production from November 2011.

Marquee Clientele

The company boasts of a marquee clientele such as Beiersdorf, Ecolab, Henkel, Diversey, L'Oreal, Reckitt Benckiser and Unilever.

Galaxy is an established player in surfactants having application in personal care products with more than 60% market share in its product range of personal care performance chemicals (*Source: Euromonitor International*).

In Domestic market, its customers include Ayur, CavinKare, Dabur, Emami, Hindustan Unilever, Henkel, ITC, L'Oreal, Marico, Procter & Gamble etc. to name a few.

The top 10 customers contributed 66.7% in FY10 and 65.9% in 9MFY11 respectively to the total revenues.

Wide Range of Product Offering and End Users

Product portfolio is segmented into three major groups:

- **Organic Surface Active Agents (OSAA)** stabilizes mixture of oil and water by reducing the surface tension at the interface between the oil and water phase. Surfactants remove dirt from skin, hair, textiles, etc.
- **Fatty Alkanolamides and Fatty Acid Esters (FA/FAE)** are mainly used as foam and viscosity boosters in formulation like in shampoos, soaps, shaving creams, liquid detergents, shower gels and bubble baths.
- **Other Specialty Chemicals** includes organic and inorganic UV absorbers, conditioning hair care polymers such as Polyquaternium-7 and cosmetic preservatives such as phenoxyethanol and its blends.

Revenue Distribution (%)

Group	FY10	9MFY11
OSAA	84.8	85.9
FA/FAE	4.6	4.1
Other Specialty Chemicals	10.5	9.7
Others	0.1	0.3

Geographical Breakup (%)

Region	FY10	9MFY11
APAC	11.6	12.0
India	47.7	48.8
America and Europe	10.4	16.1
Rest of World	30.3	23.1

Exports on a consolidated basis stood at 58% of the sales in FY10 and 56% in 9MFY11.

Company Background

Galaxy Surfactants, incorporated in 1986, is engaged in manufacturing and marketing of surfactants and specialty chemicals in India for the Personal and Home Care (PHC) industry. The company has three (3) manufacturing plants located at Tarapur, two (2) at Taloja, Maharashtra and one (1) in USA. The company currently has a production capacity of 154,230 mtpa.

Capacity Utilization

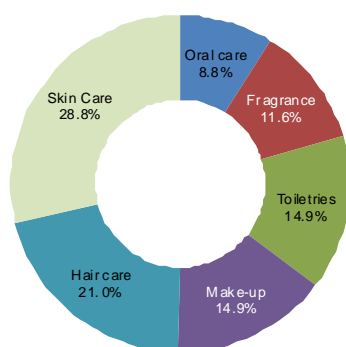
Product	Capacity (MTPA)	FY11	FY11	FY11
OSAA	Installed	138,240	268,240	293,240
	Utilization	91%	85%	85%
FA/FAE	Installed	9,000	9,000	9,000
	Utilization	51%	91%	64%
Other Specialty Chemicals	Installed	6,990	22,220	38,220
	Utilization	83%	87%	62%

Source: RHP

Industry Overview

Personal Care Ingredients (PCIs) are used in the formulation of personal care products. The PCIs include surfactants (including emulsifiers), emollients, humectants, rheological additives and other specialty chemicals.

Breakup of Personal care market by application:



The size of markets for surfactants having application in personal care and household cleaning products are USD 3.88 billion per annum and USD 8.87 billion per annum.

As per the Kline & Company Presentation, the global personal care market is approaching USD 300 billion at retail level in 2009. The industry is expected to grow at 5-6% CAGR.

Breakup of Homecare market by application:



The estimated size of the global personal care ingredient industry was USD 8-10 billion in 2009 and is expected to grow at about 5-6 % per annum.

The size of Indian PCI market is estimated at USD 300 – 350 million per annum and is expected to double during the next four years. The personal care ingredients market is expected to surpass the growth of the personal care products market which is estimated to grow at 15-16% p.a.

Investment Concerns

Top ten (10) customers contributed 67% in FY10 and 66% for the 9MFY10. Loss of any major customers may have a material adverse effect on its operational and financial condition.

Valuation

At the upper band of INR 340, the stock is available at a P/E multiple of 14.1x based on 9MFY11 annualized post-issue EPS of INR 24.1. The company operates in a high growth industry and being one of the established player helps this cause. Two-fold increase in manufacturing capacity aided by growth in personal care industry will contribute to the revenue growth from FY13. On comparison with other entities, the offer at 14x for FY11 (annualized) seems '**Expensive**'.

Financials

Income Statement (INR mn)				Balance Sheet (INR mn)			
	FY09	FY10	9MFY11		FY09	FY10	9MFY11
Sales	5560.19	6442.57	6480.28	Share Capital	85.6	177.3	177.3
Increase/(Decrease) in inventories	98.88	12.38	321.29	Reserves & Surplus	1,056.7	1,299.7	1,656.9
Total Income	5,659.1	6,455.0	6,801.6	Capital Reserve on Consolidation		31.1	31.1
Raw Materials Consumed	4,239.7	4,434.0	4,872.3	Net Worth	1,142.3	1,508.1	1,865.3
Staff Cost	250.7	491.4	434.1	Secured Loans	1,104.5	1,321.3	1,826.6
Other Manufacturing Expenses	255.7	314.2	300.0	Unsecured Loans	190.6	295.8	322.4
Selling & Admn. Expenses	264.4	409.0	366.6	Def. Tax Liabilities & Minority Int.	161.5	178.1	173.9
Other Expenses	41.5	22.5	0.7	Total Liabilities	2,598.9	3,303.4	4,188.2
Total Expenditure	5,051.9	5,671.1	5,973.7	Gross Block	2,349.0	3,026.9	3,164.6
EBITDA	607.2	783.9	827.9	Less: Depreciation	894.6	1,070.9	1,232.1
<i>EBITDA Margin</i>	<i>10.7%</i>	<i>12.1%</i>	<i>12.2%</i>	Net Block	1,454.3	1,956.0	1,932.5
Other Income	34.2	43.0	21.9	CWIP	104.9	242.8	840.9
Depreciation	147.3	178.7	166.0	Less: Revaluation Reserve			
Financial Charges	172.6	124.7	137.5	Total Fixed Assets	1,559.2	2,198.8	2,773.4
PBT	321.4	523.5	546.3	Investments	0.3	0.3	0.3
<i>PBT Margin</i>	<i>5.7%</i>	<i>8.1%</i>	<i>8.0%</i>	Current Assets	1,846.1	2,134.9	2,878.8
Tax	53.7	163.1	118.3	Current Liabilities	(806.7)	(1,030.6)	(1,464.3)
PAT before minority interest	267.7	360.4	427.9	Total Assets	2,598.9	3,303.4	4,188.2
Minority Interest		(18.5)					
PAT	267.7	378.9	427.9				
<i>PAT Margin</i>	<i>4.7%</i>	<i>5.9%</i>	<i>6.3%</i>				

Cash Flow Statement (INR mn)				Key Ratios			
	FY09	FY10	9MFY11		FY09	FY10	9MFY11
Cash flow from Operating Activities	429.2	926.2	392.9	D/E Ratio (x)	1.1	1.1	1.2
Cash flow from Investing Activities	(455.6)	(979.9)	(739.2)	EPS (INR)	15.1	21.4	24.1
Cash flow from Financing Activities	55.3	165.0	290.9	P/E @ 340 (x)	22.5	15.9	14.1
Net Changes in Cash	28.9	111.2	(55.5)	BVPS (INR)	64.4	85.1	105.2
Opening Cash	35.3	74.4	185.6	P/BV @ 340 (x)	5.3	4.0	3.2
Closing Cash	64.1	185.6	130.2	RoE (%)	23.4	25.1	22.9

Company	CMP (INR)	M-Cap (INR mn)	Sales (INR mn)	EBITDA (%)	PAT (INR mn)	EPS (INR)	PE (x)	BVPS (INR)	P/BV (x)
Galaxy @ 325	325.0	7,688.6	9,068.8	12	570.6	24.1	13.5	166.3	2.0
Galaxy @ 340	340.0	8,043.5	9,068.8	12	570.6	24.1	14.1	170.1	2.0
Godrej Industries**	188.9	59,978.8	10,703.1	7	1,103.9	3.5	54.3	32.2	5.9
Gulshan Polyols	72.0	604.4	2,544.1	14	187.4	22.3	3.2	123.8	0.6
India Glycols	120.0	3,346.6	15,681.9	12	112.9	4.0	29.6	138.1	0.9
Jocil Ltd.	292.0	1,284.8	3,722.8	10	217.8	49.5	5.9	238.2	1.2
Aarti Industries	53.1	4,068.9	13,571.9	14	593.2	7.7	6.9	59.2	0.9
Clariant Chemicals	703.1	18,771.4	10,136.4	21	1,365.2	51.1	13.7	137.4	5.1

*Galaxy EPS is calculated using annualized 9MFY11 earnings and post issue equity shares.

*BVPS for the peers are based on FY10 valuation.

** Godrej Industries (Chemical Segment): Revenue INR 7230mn, EBIT INR 550mn for 9MFY11

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1. Analyst ownership of the stock - No
2. Group/Directors ownership of the stock - No
3. Broking relationship with company covered - No

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