



SMC Ranking

★ ★ ★ ☆ ☆ (2.5/5)

Issue Highlights

Industry	FMCG
Total Issue (Shares) - Offer for sale	6,331,674
Net Offer to the Public	6,331,674
Issue Size (Rs. Cr.)	930-938
Price Band (Rs.)	1470-1480
Offer Date	29-Jan-18
Close Date	31-Jan-18
Face Value	10
Lot Size	10

Issue Composition	In shares
Total Issue for Sale	6,331,674
QIB	3,165,837
NIB	949,751
Retail	2,216,086

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	76.98%	59.12%
QIB	0.00%	8.93%
NIB	1.53%	4.21%
Retail	21.49%	27.74%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The objects of the Offer are to achieve the benefits of listing the Equity Shares on the Stock Exchanges and the sale of Equity Shares by the Selling Shareholders.

Book Running Lead Manager

- Edelweiss Financial Services Limited
- ICICI Securities Limited
- JM Financial Consultants Private Limited

Name of the registrar Link Intime India Private Ltd

About the Company

Incorporated in 1986, Galaxy Surfactants Limited is a manufacturer of surfactants and other specialty ingredients for the personal care and home care industries. The company manufactures are commonly used in consumer-centric personal care and home care products like skin care, oral care, hair care, cosmetics, toiletries and detergent products. Galaxy surfactants product portfolio includes over 200 product grades, which are marketed to over 1,700 customers in 70 countries. Galaxy surfactants products are classified in 2 categories, namely Performance Surfactants and Speciality Care Products. Its clients include Cavinkare Private Limited, Colgate-Palmolive (India) Limited, Dabur India Limited, Henkel, Himalaya, LOREAL, Procter & Gamble Home Products Private Limited, Reckitt Benckiser and Unilever. The company has 7 manufacturing facilities, out of which 5 are located in India and 2 are located overseas.

Strength

Established Global Supplier to Major FMCG Brands with Demonstrated Track Record: The company believes that its robust product portfolio and expanded geographical footprint enable the company to provide integrated solutions to a wide array of customers, whether they be established multinationals or emerging players in local markets. In Fiscal 2017, 52%, 8% and 40% of its total revenues from operations were derived from multinational customers, regional customers and local customers, respectively. All its customer base currently comprises a host of multinational, regional and local FMCG companies, including, inter alia, Cavinkare Private Limited, Colgate-Palmolive (India) Limited, Dabur India Limited, Henkel, Himalaya, L'ORÉAL, Procter & Gamble, Reckitt Benckiser, Ayur Herbals (Private) Limited, Jyothy Laboratories Limited and Unilever.

Robust Product Portfolio Addressing Diverse Customer Needs: The company has continuously diversified its product profile to address the needs of a diverse range of customers and applications. The diversity in its product portfolio enables the company to provide customized solutions to multinational FMCGs that market a host of products across diverse geographies.

Proven R&D Capabilities with Dedicated Focus on Innovation: Its emphasis on R&D has been a catalyst for the growth of its businesses and contributes significantly to its ability to meet customer needs in a competitive market. It's dedicated and experienced in-house R&D team, which comprised 63 employees as of September 30, 2017, focuses on the development of high-performance products and formulations for the consumer-centric personal care and home care segments. The company has adopted an innovation funnel model of product development, which enables the company to customize its products in line with customer expectations and consumer preferences, whilst simultaneously ensuring shorter lead-times. As a result of the aforesaid process, it believes that the company is uniquely positioned to address the growing need for mild surfactants in a sustainable manner.

Global Footprint Supporting Local Reach: Over the years, the company has successfully diversified both its product profile and geographical footprint by way of organic growth and inorganic expansions. The company believes that its diversified footprint, in both mature and emerging geographies, enables it to observe, analyse and adapt to evolving consumer preferences. The company believes that the company is well-placed to ensure that its products continue to remain relevant across diverse geographies, and is in a unique position to help its customers enhance its brand value by continuing to meet the demands of evolving markets.

Strong Presence in High Growth Markets of India and AMET Region: The market for personal care products in India was USD 11.36 Billion in Fiscal 2015, and is expected to

grow at a CAGR of 7.9%, to touch USD 22.52 Billion by 2024. Further, the market for home care products in India was USD 2.31 Billion in Fiscal 2015, and is expected to grow at a CAGR of 7.2%, to touch USD 4.32 Billion by 2024. Between Fiscals 2014 and 2017, the total revenues of Galaxy Chemicals (Egypt) S.A.E. have grown at a CAGR of 22.31%, which reflects the growth in its market presence in the AMET region. Further, as the facility is located in the Attaqa Public Free Zone, it benefits from a concessional tax regime, and is exempt from all direct and indirect taxes. The company believes that its established manufacturing facility and growing reputation for quality will enable the company to leverage the expected growth in the AMET region in the years to come, and consequently, enhance returns to its shareholders.

Track Record of Robust Financial Performance: The Company's focus on functional excellence has contributed to its track record of robust financial performance. From Fiscal 2014 to Fiscal 2017, as per the Restated Consolidated Financial Statements, its EBITDA increased from ₹ 2,19.80 Cr to ₹ 2,78.05 Cr, representing a CAGR of 8.15%. The company believes that its robust financial performance reflects the efficacy of the manufacturing and supply-chain management protocols that the company has implemented. Its steady operating cash flows enable the company to meet the present and future needs of its customers while its strong balance sheet and financial performance instil confidence in them.

Strategy

Increasing the Share of Speciality Care Products in its Sales Mix: The company intends to leverage the long-standing relationships that the company has with its existing multinational, regional and local customers for Performance Surfactants in emerging markets and address their imminent requirements by crossselling its diverse portfolio of Speciality Care Products. Further, the company intends to increase its share of sales of Speciality Care Products in mature markets by continuing to monitor evolving consumer preferences and undertaking product innovation so as to address such needs.

Continue to Focus on R&D and Product Innovation as part of its 'Consumer to Chemistry' Approach: The company believes that its focus on product innovation through continuous R&D has been critical to the growth of its business. In the years to come, the company intends to continue invest in, and undertake, product innovation with its characteristic 'Consumer to Chemistry' approach, and specifically focus on certain Speciality Care Products such as mild surfactants, rheology modifiers, pearlizing agents, UV filters, syndets and transparent bathing bars, surfactant blends and proteins. The company believes that this focus will enable the company to introduce products and formulations, increase its productivity and operating efficiency, deepen penetration in existing markets and serve as the cornerstone to its success in new markets.

Increase Wallet Share with Existing Customers and Continued Focus to Expand Customer Base: The company believes that its continuing R&D endeavours and its reputation for quality will help increase its overall market share for both of its Performance Surfactants and Speciality Care Products categories, the company intends to focus on increasing its wallet share with existing customers in the years to come. The company intends to continue to leverage its sales and marketing network, diversified product portfolio and its industry standing to establish relationships with new multinational, regional and local customers and expand its customer base.

Mutually Complimentary Two-pronged Strategy to Drive Growth in both Emerging and Mature Markets: The company believes that its strong manufacturing capabilities, established customer relationships and robust product portfolio leave the company uniquely positioned to exploit the opportunities offered by the expected growth in the personal care and home care segments in India and the AMET region. The company intends to focus on leveraging such opportunities to increase sales and cross-sales of its Performance Surfactants and Speciality Care Products in the years to come.

Continue Improving Financial Performance through Focus on Operational Efficiencies and Functional Excellence: The Company believes that its focus on functional excellence and providing integrated solutions has contributed to its financial strength and performance whilst also strengthening the trust and engagement that the company share with its customers. The company believes that the various strategic initiatives that the company has implemented, including the

continued investment in its manufacturing facilities, developing and enhancing its in-house capabilities, and its supply-chain management protocols will continue to play a critical role in its future success. Accordingly, the company intends to build on its existing strategic initiatives to achieve operational excellence that translates into financial strength and performance.

Risk

The business of the company is dependent on its manufacturing facilities: The business is dependent on its manufacturing facilities. As of September 30, 2017, the company has conducted its operations through its seven manufacturing facilities and one pilot plant. Any slowdown or shutdown in its manufacturing operations or underutilization of its manufacturing facilities could have an adverse effect on its business, results of operations and financial condition.

The company does not have long-term agreements with suppliers for its raw materials: Its business depends on the availability of reasonably priced, high quality raw materials in the quantities required by the company. It does not have long-term agreements with suppliers for its raw materials and an increase in the cost of, or a shortfall in the availability or quality of such raw materials could have an adverse effect on its business and results of operations.

Operations are hazardous: Its operations are subject to various hazards associated with the production of chemical and other products, such as the use, handling, processing, storage and transportation of hazardous materials, as well as accidents such as leakage or spillages of chemicals.

Derives a significant portion of its revenue from a few major customers: The company currently generates a significant portion of its revenues from its limited number of major customers. The company does not have long term contractual arrangements with most of such customers, and the loss of one or more of them or a reduction in their demand for its products could adversely affect its business, results of operations, financial condition and cash flows.

Subject to extensive government regulation: Its operations are subject to extensive government regulation and the company are required to obtain and maintain a number of statutory and regulatory permits and approvals under central, state and local government rules in the geographies in which the company operate, generally for carrying out its business and for each of its manufacturing facilities in India, Egypt and USA.

Industry overview

Global personal care and cosmetics market is a large and lucrative consumer market, with the market size approaching USD 215 Billion in 2015, expected to approach USD 301 Billion by 2021 and reach USD 358 Billion by 2024, with CAGR of 5.8%. Skin care being the fastest growing segment at 6.7%. India Personal Care market is expected to grow at 7.9%. The market of household cleaning agents was valued at USD 43.40 Billion in 2015. As a mature market, it is expected to report a moderate growth of around 3.3 percent in the coming years. Indian household cleaning market is expected to grow at 7.2%. Personal Care is one of the most attractive sectors for the chemical industry – it has successfully weathered economic recession; also growing awareness for new formulations is creating new opportunities for specialty personal care ingredient suppliers. Increased consumer awareness of sun exposure side effects, the use of UV absorbers has extended to an increasing number of skin care products, ranking them among the rapidly growing markets. Skin care is the largest segment contributing 29%, followed by Hair Care at 21%.

Peer comparison

As per the company, there is no listed entities in India which are similar to its line of business and comparable to its scale of operations.

Valuation

Considering the valuation at upper price band of Rs.1480, EPS and P/E of halfyear annualised FY2018 are Rs. 42.40 and 34.91 multiple respectively and at a lower price band of Rs. 1470, P/E multiple is 34.67; at upper price band of Rs.1480, book value and P/B of halfyear annualised FY2018 are Rs.200.31 and 7.39 multiple respectively and at a lower price band of Rs. 1470, P/B multiple is 7.34.

Outlook

The company is established global supplier to major FMCG brands. Over the years, GSL has significantly expanded and diversified its product profiles, client base and geographical footprints. The company tried to launch its maiden IPO in May 2011 for around Rs. 120 crore but had to withdraw it due to bad market condition. It has no listed peers to compare with, thus it is a first mover in this segment.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	January 29, 2018
Bid/Offer Closing Date	January 31, 2018
Finalisation of Basis of Allotment with the Designated Stock Exchange	February 5, 2018
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	February 6, 2018
Credit of Equity Shares to depository accounts of Allottees	February 7, 2018
Commencement of trading of the Equity Shares on the Stock Exchanges	February 8, 2018

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-17 (6 Months)	Period ended 31-Mar-17 (12 Months)	Period ended 31-Mar-16 (12 Months)
Total Operating Income	1,192.48	2,161.34	1,801.91
management fees			
Total expenditure	1,052.14	1,893.65	1,569.16
Operating Profit	140.33	267.69	232.75
OPM%	11.77	12.39	12.92
Other Income	4.80	10.36	6.84
PBDIT	145.13	278.05	239.59
Depreciation	24.65	48.35	45.23
PBIT	120.49	229.70	194.37
Interest	14.79	25.42	30.88
PBT	105.70	204.29	163.49
Tax	30.54	57.98	60.77
Profit After Tax	75.16	146.31	102.72

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-17	As on 31-Mar-17	As on 31-Mar-16
Non-current assets			
Property, plant and equipment	453.86	464.74	424.94
Intangible assets	6.96	7.81	10.82
Capital work-in-progress	16.12	10.33	50.76
Non-Current Investments	0.01	0.01	0.01
Deferred Tax Assets (Net)	3.22	2.61	1.37
Long-term loans and advances	38.66	43.46	35.92
Other Non-Current Assets	0.02	0.02	0.02
Total non-current assets	518.85	528.98	523.83
Current assets			
Inventories	272.15	317.42	235.77
Trade receivables	382.67	346.28	250.19
Cash and bank balances	31.86	25.40	15.98
Short-term loans and advances	81.07	44.97	57.60
Other current assets	28.68	22.33	25.86
Total current assets	796.43	756.40	585.40
Total Assets	1,315.27	1,285.38	1,109.23
Non-current liabilities			
Long-term borrowings	101.44	129.41	195.80
Deferred tax liabilities	23.66	24.44	20.69
Other Long term Liabilities	0.74	0.68	2.52
Long term Provisions	12.22	8.82	7.67
Total non-current liabilities	138.06	163.35	226.68
Current liabilities			
Short term borrowings	211.95	204.14	142.35
Trade Payables	230.43	253.19	193.39
Other Current Liabilities	87.73	86.44	92.50
Short term Provisions	12.06	5.66	6.54
Total current liabilities	542.17	549.42	434.78
Total	680.23	712.77	661.46
NET Worth	635.04	572.61	447.77
Net worth represented by:			
Share capital	35.46	35.46	35.46
Other Equity	599.59	537.16	412.32
Net Worth	635.04	572.61	447.77

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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