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5 MIN STOCK IDEA

GALAXY SURFACTANTS

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5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

GALAXY SURFACTANTS

WHAT WE LIKE

LEVERAGING CHEMISTRY IN CONSUMER PRODUCTS VALUE CHAIN

Galaxy addresses the ingredient requirements of the Home and Personal Care (HPC) Industry in preparing daily use products like hair, oral, skincare, cosmetics, soaps, shampoos, lotions, detergents, cleaning products, etc across all ranges of customers. Galaxy has 45+ products in the PS segment and 165+ products in the SCP segment. It has 79 patents & 14 are under application currently.

INNOVATIVE PRODUCT PORTFOLIO BACKED BY STRONG R&D

Performance Surfactants: Forms **62%** of the latest revenue figures. Products are **functional in nature** where end-consumer requires **foaming & cleansing**. Major Consumption in rinse-off formulations. **Demand for PS remains stable and growth here is expected from the rise of the HPC market in developing countries.**

Specialty Care Products: Forms **38%** of the latest revenue figures. **Niche & Premium products**. Low volume consumption. **Oligopolistic** for most products. **Low penetration** due to their unique application with **huge room for growth. Growth in this segment is led by premiumization and the rise of e-commerce players in HPC industry.**

DIVERSE SALES & MANUFACTURING NETWORK & LONG MNC RELATIONSHIPS

Galaxy has developed a **strong presence** in both the **developed and emerging markets** with plants in India, Egypt and USA used to cover both developed and developing markets. The regional **mix of volumes in Q1FY22 is as follows: India 38%, AMET 30%, and ROW 32%.**

The company has **decades-long relationships with MNC majors** like

marico Unilever ITC Limited L'ORÉAL COLGATE-PALMOLIVE

RISE IN DEMAND FOR HPC INDUSTRY

COVID-19 is expected to have led to **a permanent shift in consumer behavior is expected towards household and personal cleanliness.** As a result of habits formed from this time like increased hand washing, etc are expected to be stable and enduring. **This is very beneficial for FMCG majors and surfactant makers like Galaxy.**

WHAT WE DON'T LIKE

RAW MATERIAL PRICE RISK

Fatty Alcohol is the key raw material for performance surfactants. It constitutes more than **half of the total material cost**. Fatty Alcohol is **a palm kernel oil derivative** and is sourced from South East Asia. The price of this commodity has risen a lot in the past 1 year from $1089/MT in Q1FY21 to $2069/MT in Q1FY22, thus putting a lot of pressure on margins.

Other key raw materials include **petrochemical products**, thus making the company's profitability **vulnerable to high volatility in crude oil prices.**

DEMAND RISK FOR SPECIALTY CARE PRODUCTS

Any adverse economic decline may lead to a loss in demand for Specialty Care Products which are mostly discretionary in nature. **For example, as a consequence of economic decline from COVID-19, sales of the specialty care products division had fallen 39% YoY in Q1FY21.**

GLOBAL SUPPLY CHAIN & CURRENCY RISKS

Galaxy supplies to at least **80 countries** at present. **62% of the volumes come from the International market.** Thus the company is **highly dependent on the global supply chain and shipping for delivering its products to its customers on time and for procuring critical raw materials & feedstocks which are not available in local markets.** Galaxy has faced similar issues in recent times **due to the container shortage in 2021 where it was unable to ship its products to its customers on time during the Suez Canal blockage**, and more recently in Q1FY22, **it was unable to get a few critical RM stocks which forced it to import costly intermediates and suffer margin contraction.**

The company's high export sales % also makes it vulnerable to currency volatility.

GESTATION RISK

Specialty care products undergo **significant testing and qualification procedures** before the same are incorporated in the end formulation by the customer. The result of the same may not always be positive. These products hence, carry a **significant gestation risk** and **materialization of the same can potentially affect the business performance of the company.**

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