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Mumbai

CRISIL Equities assigns IPO grade 4/5 to Galaxy Surfactants Limited

CRISIL Equities has assigned a CRISIL IPO grade of "4/5" (pronounced "four on five") to the proposed initial public offer (IPO) of Galaxy Surfactants Ltd (Galaxy). This grade indicates that the fundamentals of the IPO are above average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The assigned grade takes into account good prospects for surfactants, especially in India and emerging markets, driven by strong growth in end-user personal and home care segments in an improved economic environment. The grade reflects Galaxy's dominant position in the Indian market (more than 60% market share in its range of personal care performance chemicals). It also reflects favourable business prospects arising from capacity expansion in Egypt to cater to the demand in high-growth markets of Africa, Middle East and Latin America. The grade has factored in Galaxy's strong relationship with blue chip clients, which is supported by its strong R&D capabilities; to its credit, it has 18 patents in India and 10 patents in the US. The grade also factors in strong management capabilities coupled with equally strong experience which has been instrumental in the company's growth.

The grade is moderated by the high client concentration risk faced by the company. Also, the timely execution of its first manufacturing facility in the international market (Egypt) remains a key monitorable. Galaxy is a relatively small company in the global surfactant market with a share of less than 1% and it faces stiff competition from large and diversified global players. Its ability to withstand strong competition remains a key monitorable too.

About the company and the issue

Galaxy was founded in 1980 by Mr Unnathan Shekhar, Mr Gopalkrishnan Ramakrishnan, Mr Shashikant Rayappa Shanbhag and Mr Sudhir Dattaram Patil. It manufactures surfactants and specialty chemicals in India for personal and home care segments, and markets them globally. Surfactants are surface active agents which reduce interfacial tension between two phases. Having started with only two products, Galaxy currently manufactures and markets 66 products across 70 countries. These products find application in skin, hair, oral and sun care, body wash, household cleaners and fabric care segments. They can be segmented into three major groups, (a) organic surface active agents (OSAA), (b) fatty alkanolamides and fatty acid esters (FA / FAE), and (c) other specialty chemicals.

Galaxy's consolidated revenues have grown at a healthy CAGR of nearly 29.8% between FY08 and FY10 to Rs 6.4 bn. It posted PAT of Rs 379 mn in FY10. EBITDA and PAT margins during the same period were 12.6% and 5.9%, respectively. RoE has been steady at ~28% over the past three years.

Promoters-led Galaxy has achieved leadership position in the domestic surfactants market for personal and home care segment and also acquired/retained blue chip FMCG clients. There is a high level of involvement and awareness about the company's strategy across senior and second line of management. Also, independent directors have a fair understanding of the overall business of the company.

Galaxy will use the IPO proceeds to set up its greenfield manufacturing facility in Egypt amounting to Rs 2,123 mn, to set up a new manufacturing facility at Jhagadia, Gujarat for Rs 701 mn, for expansion of capacities at the existing manufacturing units in Tarapur amounting to Rs 470 mn and to fund the expansion of capacities at the existing manufacturing units in Taloja for Rs 135 mn.

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