CRISIL Ratings

Rating Rationale

May 09, 2023 | Mumbai

Galaxy Surfactants Limited

Ratings reaffirmed at 'CRISIL AA-/Stable/CRISIL A1+'

Â

Rating Action

Total Bank Loan Facilities Rated	**Rs.906.33 Crore**
Long Term Rating	**CRISIL AA-/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limitedâ€™s Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its â€˜CRISIL AA-/Stable/CRISIL A1+â€™ ratings on the bank facilities of Galaxy Surfactants Ltd (Galaxy; a part of the GSL group).
Â
The ratings continue to reflect the established market position of the group in the specialty chemicals sector, supported by its customer, segmental and geographic diversity along with longstanding relationship with leading global and national fast moving consumer goods (FMCG) players, particularly in the home and personal care (HPC) segment. The ratings also consider healthy operating capabilities and financial risk profile. These strengths are partially offset by large working capital requirement and vulnerability of the operating margin to micro economic headwind and volatility in raw material prices.
Â
GSL group registered 32% year-on-year growth in revenue during nine months ended December 31, 2022, supported by increased realization. Volume growth, however, came in marginally lower at 1.73 lakh (9MFY22: 1.77 lakh) at the back of the economic headwinds in the AMET region (Africa, Middle East and Turkey). At the back of easing supply issues, sourcing efficiencies and better product mix, GSL saw operating margins improve to 12.5% with EBIDTA per ton increasing from over Rs 15,000 in 9MFY22 to over Rs 25,000 as on 9MFY23. Topline grew by 33% in fiscal 2022, driven by increase in realisations. However, the operating margin declined to 10.9% (from 16.2% in fiscal 2021) as the group faced challenges on the supply chain front, timely unavailability of raw material, shipment delays, rising freight cost and incremental raw material prices. The margin is projected at 11.5-12.5% over the medium term.
Â
Financial risk profile continues to remain healthy with strong debt protection metrics. Gearing is expected to remain under 0.30 times while interest coverage is expected to remain over 16 times in the medium term. Steady cash accruals and prudent funding of capital expenditure (capex) are expected to keep debt levels under control and will continue to strengthen the financial risk profile of the group.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Galaxy and its subsidiaries, collectively referred to as the GSL group herein, having significant operational synergies and financial linkages.
Â
Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Established position in the HPC intermediates market: The GSL group has for over four decades been engaged in the manufacture and sale of surfactants and specialty chemicals used as intermediates by the HPC industry. The group is one of the leading players globally in the HPC intermediates industry, driven by long-standing customer relationships. It caters to a large clientele base of over 1,450+ customers across 80+ countries, consisting of reputed HPC FMCG multinationals and domestic customers. The group caters to three regions namely India (38% of revenue in fiscal 2022), Africa Middle East and Turkey (AMET: 31%) and rest of the world (ROW: 31%) which largely comprises of the US, Europe and Asia-Pacific. Wide geographic and customer diversification de-risks its exposure to a single geography. Its products find applications across mass, mid-price and prestige range of customers.
Â
CRISIL Ratings believes that the GSL group will maintain its established market position in the HPC segments over the medium term, in view of its longstanding association with clients and strong research and development (R&D) capabilities; and expects the groupâ€™s revenues to grow at a steady rate over the medium term, in line with demand from the end-user segments.
Â
Healthy operating capabilities: The group is integrated across the full value chain of the HPC industry. It has seven strategically located facilities at 3 locations in India with in-house project execution capabilities, one in Egypt, one in the US. The group has a strong R&D focused team which works at a dedicated R&D centre. As of December 2022, The group has 88 approved patents and has also applied for another 15, which will continue to support its growing product base (220+) over time. Through cost optimisation and focus on increasing the share of value-added products, the group was able to increase its EBITDA per tonne from Rs 15,000 levels in fiscal 2018 to over Rs 19,000 levels in fiscal 2021, however, fiscal 2022 saw the EBIDTA per tonne drop to 17,000 levels at the back of inflationary pressures and supply side constraints seen during the year. During the first nine months of fiscal 23, company reported EBITDA per ton of over Rs 25,000 (vs 9MFY22 of over Rs 15000) on account of strong demand from India coming in coupled with significant decline in freight rates, raw material prices and improved availability of raw material.
Â
Healthy financial risk profile: GSL groupâ€™s financial risk profile is marked by healthy net worth, improving gearing and strong debt protection metrics. Steady cash accruals and prudent funding of capex has enabled the

group to keep debt levels under control. As a result, gearing improved to 0.23 times as on March 31, 2022, from 0.49 time as on March 31, 2018, while the interest coverage ratio were over 31 times in fiscal 2022 from 9.4 times in fiscal 2018. The group is expected to incur capex of Rs 150 crore per annum over the medium term, which will be funded through a healthy mix of internal accruals and debt. With steady business performance, debt protection metrics will continue to remain strong over the medium term.
Â
Weaknesses:
Moderately working capital intensive operations: GSL group maintains inventory of 65-80 days, while its receivable cycle is around 60-65 days, translating to gross current days averaging around 120-140 days over the last three fiscals ending 2022. Around 40-50% of these current assets are funded by creditors which stands around 70-80 days, and the balance by working capital borrowings. CRISIL Ratings believes that while GSL groupâ€™s working capital requirement would increase on account of the increase in scale of operations, expectations of healthy cash generation would support the incremental working capital requirement needs. CRISIL Ratings also takes comfort from the strong credit profile of the customers which provides the group flexibility to discount debtors to generate liquidity if required
Â
Partial susceptibility of operating profitability to volatility in raw material prices: GSL group has a high dependence on lauryl alcohol which contributes to a majority of its raw material costs. The group derives most of its revenue through cost plus model while for balance through non-cost-plus model whereby it derives its revenue on the basis of the prevailing market price. The operating profitability of the group therefore remains partially susceptible to volatility in the prices of key raw materials, such as fatty alcohol, fatty acids, ethylene oxide, phenol, and linear alkyl benzene, as witnessed in the current fiscal.
Â
Liquidity: Strong
While cash surpluses were modest around Rs 70 crore as of September 30, 2022, GSL groupâ€™s liquidity is strong, supported by moderate bank limit utilisation (average utilisation of 35% over last twelve months ending December 2022) and healthy cash accruals of over Rs 300 crore per annum. In contrast, long term debt obligations range between Rs 30-40 crore annually over the next three fiscals. CRISIL Ratings expects internal accruals, cash & cash equivalents, and unutilized bank lines to be sufficient to meet the repayment obligations.

Outlook: Stable
The GSL group will continue to benefit from its strong market position and established clientele in the domestic and global markets. Financial risk profile should remain healthy, aided by steady cash accrual.

Rating Sensitivity factors
Upward factors
- Steady increase in revenue, led by volume growth, and operating margin at 12-14%
- Sustained healthy financial risk profile and debt protection metrics

Â
Downward factors
- Deterioration in operating performance, leading to cash accrual below Rs 150 crore
- Large, debt-funded capex or acquisition or a further stretch in the working capital cycle, resulting in weak debt protection metrics; for instance, debt/Ebitda more than 1.5 times

About the Group
GSL group, set up in 1980, manufactures, sells, and distributes surfactants and specialty chemicals, which are used as intermediate raw materials in the Home Care and Personal Care (HPC) products. GSL has its facilities at 2 manufacturing locations in India at Tarapur and Taloja in Maharashtra, having an approximate installed capacity of around 1.91 lakh MTPA and a 1.33 lakh MTPA ethoxylation (intermediate process) plant at Jhagadia, Gujarat. Galaxy Chemicals (Egypt) SAE, a step-down subsidiary of GSL, set up a greenfield project in Suez, 140 km from Cairo in Egypt, where it operates a manufacturing plant with an installed capacity of around 1.18 lakh MTPA. Tri-K is based in the US and markets the group's products in that geography and manufactures proteins for the global cosmetic and personal care industry. As on March 31, 2023, promoters held ~71% stake in the company.

Key Financial Indicators

As on / for the period ended March 31	Â	2022	2021
Revenue	Rs crore	3,686	2,784
Profit after tax (PAT)	Rs crore	263	302
PAT margins	%	7.1	10.9
Adjusted Debt/Adjusted Net worth	Times	0.23	0.21
Interest coverage	Times	31.9	34.2

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -Â Details of Instrument'Â in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -Â including those that are yet to be placed -Â based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	ComplexityÂ levels	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	265	NA	CRISIL AA-/Stable
NA	Factoring/ Forfaiting	NA	NA	NA	85	NA	CRISIL A1+
NA	Letter of Credit and Bank Guarantee	NA	NA	NA	270.4	NA	CRISIL A1+
NA	Proposed Term Loan	NA	NA	NA	5.08	NA	CRISIL AA-/Stable

NA	Term Loan#	NA	NA	Sep-26	100	NA	CRISIL AA-/Stable
NA	Term Loan$	NA	NA	NA	98	NA	CRISIL AA-/Stable
NA	Term Loan*	NA	NA	Jul-27	82.85	NA	CRISIL AA-/Stable

**Rs 20 crores not availed*
#Rs 60 crores not availed
$Rs 98 crores not availed

Annexure â€“ List of entities consolidated

Names of Entities Consolidated	Extent of ConsolidationÂ	Rationale for ConsolidationÂ
Galaxy Chemicals Inc., USA	Full	Strong managerial, operational, and financial linkages
Galaxy Holdings (Mauritius) Ltd	Full	Strong managerial, operational, and financial linkages
Rainbow Holdings GmbH	Full	Strong managerial, operational, and financial linkages
Galaxy Chemicals (Egypt) S.A.E.	Full	Strong managerial, operational, and financial linkages
TRI-K Industries Inc., USA	Full	Strong managerial, operational, and financial linkages

Annexure - Rating History for last 3 Years

Â	Current			2023 (History)		2022Â		2021Â		2020Â		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	635.93	CRISIL A1+ / CRISIL AA-/Stable	Â	--	09-02-22	CRISIL A1+ / CRISIL AA-/Stable	Â	--	02-11-20	CRISIL A1+ / CRISIL AA-/Stable	CRISIL A+/Positive / CRISIL A1
Â	Â	Â	--	Â	--	Â	--	Â	--	26-10-20	CRISIL A1+ / CRISIL AA-/Stable	--
Non-Fund Based Facilities	ST	270.4	CRISIL A1+	Â	--	09-02-22	CRISIL A1+	Â	--	02-11-20	CRISIL A1+	CRISIL A1
Â	Â	Â	--	Â	--	Â	--	Â	--	26-10-20	CRISIL A1+	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	**40**	**The Hongkong and Shanghai Banking Corporation Limited**	**CRISIL AA-/Stable**
Cash Credit	**15**	**IDBI Bank Limited**	**CRISIL AA-/Stable**
Cash Credit	**20**	**Kotak Mahindra Bank Limited**	**CRISIL AA-/Stable**
Cash Credit	**50**	**HDFC Bank Limited**	**CRISIL AA-/Stable**
Cash Credit	**80**	**Standard Chartered Bank Limited**	**CRISIL AA-/Stable**
Cash Credit	**30**	**The Saraswat Co-Operative Bank Limited**	**CRISIL AA-/Stable**
Cash Credit	**30**	**Citibank N. A.**	**CRISIL AA-/Stable**
Factoring/ Forfaiting	**85**	**Standard Chartered Bank Limited**	**CRISIL A1+**
Letter of credit & Bank Guarantee	**15**	**Kotak Mahindra Bank Limited**	**CRISIL A1+**
Letter of credit & Bank Guarantee	**20**	**The Hongkong and Shanghai Banking Corporation Limited**	**CRISIL A1+**
Letter of credit & Bank Guarantee	**30.4**	**The Saraswat Co-Operative Bank Limited**	**CRISIL A1+**
Letter of credit & Bank Guarantee	**50**	**IDBI Bank Limited**	**CRISIL A1+**
Letter of credit & Bank Guarantee	**60**	**Citibank N. A.**	**CRISIL A1+**
Letter of credit & Bank Guarantee	**70**	**Standard Chartered Bank Limited**	**CRISIL A1+**
Letter of credit & Bank Guarantee	**25**	**HDFC Bank Limited**	**CRISIL A1+**
Proposed Term Loan	**5.08**	**Not Applicable**	**CRISIL AA-/Stable**
Term Loan#	**100**	**Kotak Mahindra Bank Limited**	**CRISIL AA-/Stable**
Term Loan*	**82.85**	**The Hongkong and Shanghai Banking Corporation Limited**	**CRISIL AA-/Stable**
Term Loan$	**98**	**HDFC Bank Limited**	**CRISIL AA-/Stable**

This Annexure has been updated on 09-May-2023Â in line with the lender-wise facility details as on 17-Aug-2021 received from the rated entity
** -Â Rs 20 crores not availed*

 # -Â Rs 60 crores not availed
$ -Â Rs 98 crores not availed

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Chemical Industry
CRISILs Criteria for Consolidation

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations **CRISIL Limited** M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com **Prakruti Jani** Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja GaikwadÂ** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	Anuj Sethi Senior Director **CRISIL Ratings Limited** B:+91 44 6656 3100 anuj.sethi@crisil.com Aditya Jhaver Director **CRISIL Ratings Limited** B:+91 22 3342 3000 aditya.jhaver@crisil.com Latika Shyam Lala Senior Rating Analyst **CRISIL Ratings Limited** B:+91 22 3342 3000 Latika.Lala@crisil.com	Timings: 10.00 amÂ to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com Â For Analytical queries: ratingsinvestordesk@crisil.com

Note for Media:
This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper/magazine/agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings. However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites andÂ portals.

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such asÂ bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).
Â
CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").
Â
For more information, visitÂ www.crisilratings.comÂ
Â

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.Â

It is Indiaâ€™s foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visitÂ www.crisil.com

Connect with us: TWITTER | LINKEDIN | YOUTUBE | FACEBOOK

---

completeness or adequacy of the report, and no CRISIL Ratings Party shall have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. EACH CRISIL RATINGS PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Ratings Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. Public ratings and analysis by CRISIL Ratings, as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any), are made available on its website, www.crisilratings.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee - more details about ratings by CRISIL Ratings are available here: www.crisilratings.com.

CRISIL Ratings and its affiliates do not act as a fiduciary. While CRISIL Ratings has obtained information from sources it believes to be reliable, CRISIL Ratings does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/or relies on in its reports. CRISIL Ratings has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL Ratings has in place a ratings code of conduct and policies for managing conflict of interest. For details please refer to: https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html.

Rating criteria by CRISIL Ratings are generally available without charge to the public on the CRISIL Ratings public website, www.crisilratings.com. For latest rating information on any instrument of any company rated by CRISIL Ratings, you may contact the CRISIL Ratings desk at crisilratingdesk@crisil.com, or at (0091) 1800 267 1301.

Â

Â

CRISIL Ratings uses the prefix 'PP-MLD'Â for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link:Â https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html