INVasset Knowledge Bank

SOLAR INDUSTRIES INDIA LIMITED

25th NOVEMBER, 2022

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India's Best Performing and Most Customer Centric PMS

Solar Industries India limited (SIIL) was established in 1995. Solar Industries is the largest manufacturer of industrial explosives and explosive initiating systems in India and has the world's largest manufacturing facility for packaged explosives. Having a licensed explosives capacity of over 290,000 MT/annum, the company has ~28% market share in India. Company is having 70% market share in exports. It Exports to 51 countries around the world. Economic Explosives, a 100% subsidiary, of the company manufactures detonators. In recent years it has expanded its manufacturing base to Nigeria, Zambia, South Africa, Turkey, Ghana and Australia. SIIL also has interests in the coalmines (in Chhattisgarh) through two Jvs..

Investment rationale

Strong Business Model – SIIL manufactures most of raw material in-house i.e. emulsifiers, sodium nitrate, calcium nitrate, PETN unlike its competitors which helps it to achieve superior margin. Further, strict regulation norms i.e., new licenses, explosive transportation restrict new players to enter the market.

Export, Overseas Trade business, key growth drivers for SIIL– SIIL currently exports to 51 countries and has manufacturing set-up in Nigeria, Zambia, Ghana, South Africa, Turkey & Australia. It has ventured into overseas manufacturing in FY11 and since then its overseas revenues have reported healthy growth. On the export side, SIL is the largest exporter of explosives and accessories from India with a market share of ~70%.

Defence segment having bright future prospect: SIIL's core competency is to create a niche for itself as a dominant player in a highly regulated industry with long gestation period & high entry barriers. Company has been constantly focusing on consumable category of products which are a strong synergy to their existing industrial explosives business. It had forayed in the defence space in 2010,

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Expanding footprints : The company has taken a strategic decision to make an investment in North India based explosive manufacturing company (RECL) after recently making investments in Skyroot and Zmotion to increase the product portfolio for various high-end applications & enhance geographical footprints.

Debt & Capex : The company aims to spend Rs 4500-5000 mn for entire FY23. The management projects to spend Rs 1600 mn /Rs 1000 mn on defence &overseas market while rest will be utilized for geographical and product portfolio expansion on domestic basis.

Valuation & Outlook

At CMP of Rs 3760 stock is trading at a TTM P/E multiple of 55.2 to its TTM EPS of Rs 68.1 We are positive on the company backed by improving earning prospects. and increasing earnings sustainability at higher levels owing to product diversification. Pick up in export and defence segment, increase in revenue from non CIL customers from coal segment and better performance from overseas subsidiaries on back of strong demand are key triggers for healthy performance.

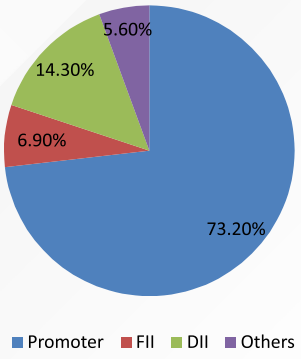
Company Update

Rating Matrix & Stock Info

CMP	₹ 3949
Rating	Buy
52-week H/L	₹ 4269./2160
Face value	₹ 2
Market Cap.	₹ 357354 Mn
BSE	532725
NSE	SOLARINDS
Routers	SOIL.BO
Bloomberg	SOIL.IN
Sector	Defence/ Explosives

Shareholding Pattern (%)

Particular	Sep 22
Promoters	73.2%
FII	6.9%
DII	14.3%
Others	5.6%



Financials in Mn

Particular	FY19	FY20	FY21	FY22	TTM
Revenue	24620	22370	25160	39480	55170
EBIDTA	5020	4340	5150	7480	10230
EBITDA Margin (%)	20%	19%	20%	19%	19%
PAT	2770	2790	2880	4550	6510
NPM (%)	11.3%	12.5%	11.4%	11.5%	11.8%
ROE (%)	22.4%	20.2%	18.2%	23.8%	29.8%
EPS (Rs)	28.9	29.5	30.5	48.7	68.1
P/E (x)	136.6	133.9	129.5	81.1	55.2

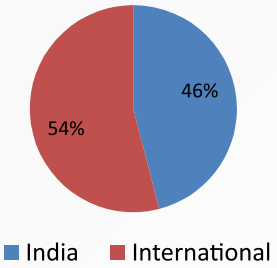
Stock Performance (%)

	3m	6m.	1 Yr
Solar Industries	16.6%	36.8%	42.3%
Nifty50	1.9%	12.7%	3.1%

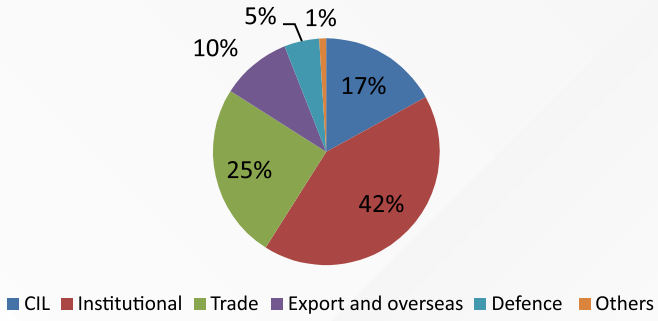
Company overview

Solar Industries India limited (SIIL) was established in 1995, Solar Industries is the largest manufacturer of industrial explosives and explosive initiating systems in India and has the world's largest manufacturing facility for packaged explosives. Having a licensed explosives capacity of over 290,000 MT/annum, the company has ~28% market share in India. The company also has an overseas manufacturing presence in 4 countries at present. Company having 70% market share in exports, It Exports to 51 countries around the world. Economic Explosives, a 100% subsidiary, of the company manufactures detonators. In recent years it has expanded its manufacturing base to Nigeria, Zambia, South Africa, Turkey, Ghana and Australia. SIIL also has interests in the coalmines (in Chhattisgarh) through two JVs. Its product portfolio includes bulk and cartridge explosives, detonators, detonating cords and cast boosters etc. Company supplies to major public and private sector companies including Coal India and its subsidiaries, Steel Authority of India, Singareni Collieries Company, Hindustan Zinc and JSW amongst others. Of these, Coal India is the largest customer of SIIL

Region wise revenue breakup



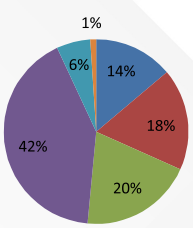
Segment wise revenue break up



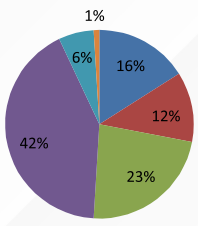
Half Yearly Customers

Customer	HYFY23	% Sales	HYFY22	% sales	Change YoY
CIL	449	14%	261	16%	72%
Non CIL& Institutional	557	18%	192	12%	191%
Housing & Infra	638	20%	372	23%	71%
Exports & Overseas	1331	42%	669	42%	99%
Defence	175	6%	104	6%	69%
Others	32	1%	15	1%	116%
Total	3182		1613		97%

HYFY23



HYFY22





Source : Investor presentation & Company research

Comprehensive Investment rationale

Strong Business Model: SIIL manufactures most of raw material in-house i.e., emulsifiers, sodium nitrate, calcium nitrate, PETN unlike its competitors which helps it to achieve superior margin. Further, strict regulation norms i.e., new licenses, explosive transportation restrict new players to enter the market.

Explosives being a security threat, strict regulations and monitoring has been put in place by the government. Compliance with such regulations and obtaining authorization and licenses acts as an entry barrier to most of the new entrants. Also, in FY14, ammonium nitrate (key raw material) was categorized and bought under the list of explosives. Thus, all the regulations applicable to movement of explosives are also applicable to ammonium nitrate (AN). One of the rules for stringent monitoring included reporting of the entire list of explosives leaving out of the factory to Controller and the District Superintendent of Police in whose jurisdiction the place from/to which the consignment is sent is situated. With AN being included in the list of explosives, it has curbed the unorganized use of AN significantly, which has led to higher demand for industrial explosives in the long-term. Successful backward integration, consistent capacity expansion, compliance with strict regulatory norms and almost negligible accidental incidents has helped company to deliver a consistent growth coupled with robust operational performance.

Export, Overseas Trade business, key growth drivers for SIIL: SIIL currently exports to 51 countries and has manufacturing set-up in Nigeria, Zambia, Ghana, South Africa, Turkey & Australia. It ventured into overseas manufacturing in FY11 and since then its overseas revenues have reported healthy growth. On the export side, SIL is the largest exporter of explosives and accessories from India with a market share of ~70%.
Going forward, with plans to expand capacities in existing geographies along with setting up new manufacturing facilities in 3-4 new countries over the next 2-3 years, we expect export and overseas segment revenues to clock a healthy growth. In the domestic markets, SIIL has got advantage of fast-growing Indian construction and infrastructure space where it's leading supplier of packaged/cartridge explosives to leading construction companies. The trade segment has been the key growth driver for the company.

Expanding footprints : The company has taken a strategic decision to make an investment in North India based explosive manufacturing company (RECL) after recently making investments in Skyroot and Zmotion to increase the product portfolio for various high-end applications & enhance geographical footprints.
Going forward, the management projects inflationary environment & consequential policy rate tightening measures to impact the global demand. However, the government's emphasis on housing and infra, rising coal demand & Atmanirbhar Bharat promoting towards indigenization of defence products will enable the company to achieve good growth . Defence continues to play a major role in the company's top line growth, and to escalate the progress, the company has taken initiative to penetrate in the field of drones, embracing both offensive and defensive roles of these equipment.

Defence segment having bright future prospect: SIIL's core competency is to create a niche for itself as a dominant player in a highly regulated industry with long gestation period & high entry barriers. Company has been constantly focusing on consumable category of products which are a strong synergy to their existing industrial explosives business. It had forayed in the defence space in 2010.

Defence has an extremely tedious process for award winning which starts with first trial' followed by RFP, Qualification stage (which includes product development, technical scrutiny and field trails). After this the 'Price bidding' starts which are finally ended by Order wins. SIL has been constantly ahead in investing in the defence business. It has consistently been generating strong cash flows from its core industrial explosives business which it has been investing in the future growth avenues like defence where there's a large mega opportunity. It supplies products which are recurring in nature and in the long term, the company has potential to be one of key beneficiaries of government plans on indigenization in the defence sector. Its core product portfolio comprises of consumable products like Multi-mode and grenade, HMX (High Melting explosives) & HMX compounds, composite propellants, pyros, igniters, fuses & rocket integration

SIIL has increased its focus on defence sector by (1) setting up an integrated facility for Pinaka rockets;(2) becoming the first private sector company to receive ready-to-use ammunition order worth Rs 3000 mn for exports and (3) setting up an integrated facility for defence products such as high energy material, rocket propellants, warheads and rockets. As a result, defence order book has risen to Rs8800 mn in Q2FY23 as compared to 5400 mn in Q1FY23.
Going forward, we expect defence revenues to significantly multiply in next 2-3 years. Margins in defence segment are relatively higher compared to industrial explosives and can reflect in the bottom-line once it reaches a certain size.

Industry overview

Explosives mainly find their use in the mining and infrastructure industries. The growth in the explosives industry is largely dependent on the growth in the mining industry, with players in mining comprising the largest consumers of industrial explosives.

Global Explosive Industry

The mining segment dominates the global market and is expected to maintain this trend due to the increasing mineral extraction and demand for rare earth metals such as gold and silver. Moreover, coal is another commodity accounting for the rapid growth of mining industry across various regions. Asia-Pacific accounts for largest market share, both in value and volume, owing to the increasing mining activities in China, India, and Japan. The demand for mining chemicals is on the rise on account of the necessity of water treatment in the region. The use of these chemicals in limestone grinding for cement production is likely to drive the global market. North America is the second largest region in the global mining explosives market on account of the high demand for mining chemicals for limestone grinding in the U.S. The increasing demand for battery metals in electric cars is likely to fuel the demand for mining chemicals in the coming years.. The African mining industry is expected to witness a significant growth being the largest producers and exporters of platinum, copper, iron ore, uranium, and others.

Domestic Explosive Industry:

Mining sector is the biggest consumer of explosives and initiating systems in India. It consumes almost 80% of the explosives with coal mining being the largest consumer of both packaged and bulk explosives. It is the third largest producer of coal. India has a huge potential for mining with leases provided for 20 to 30 years. India is a producer of 88 minerals, where 4 are fuel related, 10 metallic minerals, 50 non-metallic minerals and 24 minor minerals. India is the 4th largest producer of iron ore in the world. A tremendous boost in the housing sector will lead to an increase in demand for cement, steel and aggregate stone . As a result, the demand for cement and steel. This will give a substantial boost to mining of limestone, iron ore, stone quarrying which will further help the explosives industry to grow. Infrastructure sector is one of the key drivers of Indian economy. Indian infrastructure industry is also one of the main consumers of Indian explosives. The growth in various infrastructure projects, such as highways, roads, houses and tunnels will give a boost to the industrial explosives industry.

Key Risk & Concerns

Slowdown in mining & infrastructure space : Industrial explosives demand growth is highly dependent on overall performance of mining & construction sectors. Any long-term structural slowdown in this space can adversely impact volume growth of bulk & packages explosives.

Volatility in raw material prices : Any prolonged volatility in raw material (Ammonium Nitrate) prices, along with the inability to completely pass on higher prices due to stiff competitive intensity, can impact overall profitability.

Slowdown in overseas business: Any delay in commencement of operations either on account of geo-political risks or regulatory challenges would impact growth in overseas business.

Q2FY23 result analysis:

Company reported strong result in Q2FY23 revenue from operation grew by 98.9% YoY and declined by 3% QoQ to Rs 15666 mn. YOY growth in revenue was seen in revenue led by healthy volume growth in explosives. Volumes increased 9.1% YoY whereas realisations jumped 73.5% YoY. Accessories segment registered an improvement of 50% YoY to Rs 1260 mn . Defence segment revenue came in at Rs 1110 mn, up 94.2% YoY. Overseas and exports segment revenue came in at Rs 7390 mn, up 106.6% YoY. EBIDTA margin expanded YoY as well as QoQ to 19.1% backed on account of positive operating leverage and strong revenue growth. Further higher realization and stable raw material cost helped in margin expansion. PAT margin expanded by 210 bps YoY and 70 bps QoQ to 11.2%

INR mn	Q2FY23	Q2FY22	Q1FY23	YOY	Q0Q
Net Revenue	15666	7877	16156	98.9%	-3%
EBITDA	2990	1318	2830	126.9%	5.7%
EBITDA margin %	19.1%	16.7%	17.5%	240bps	160bps
PAT	1765	738	1702	139.1%	3.7%
PAT margin%	11.2%	9.4%	10.5%	210bps	70bps

Key Con-call takeaways

- Export opportunities are providing new avenues for growth. The company booked Rs 300 mn worth of orders for ready-to-use ammunitions.
- Current defence order book of Rs 8800 mn and better export opportunities give confidence for increasing revenue growth guidance to 50% from 30% in FY23.
- Management expects exports business to grow by 15-16% in FY23
- Company expects an order book of 60000 mn by FY23 end
- Expect revenue from defence at Rs 4000 mn in FY23 to o increase to Rs 7000 mn by FY24.
- Ammonium nitrate price are marginally down from Rs 83,500/t to Rs82,500/t.
- Sales to non-CIL business is likely to grow at 14-15% with volume growth expected in 10-15% range.
- Capex for Fy23 is expected at Rs 4500-5000 mn.

Source : Company financials & result conference call

Peer Comparison

Particulars (Rs in Mn.)	Solar Industries India Limited	Premier Explosives Limited	Keltech Energies Limited
CMP (as on 18-11-2022)	3760	447	702
Revenue	55170	2240	4680
EBIDTA	10230	210	170
PAT	6510	50	70
Margins			
EBITDA Margin%	19%	9.0%	4%
PAT Margin%	11.8%	2.2%	1.5%
Return Ratios			
ROE (%)	23.8%	2.6%	9.9%
ROCE (%)	27%	4%	10%
Leverage			
Debt-Equity (x)	0.5	0.5	0.5
Valuation			
EPS	68.1	4.5	69.1
P/E	55.2	99.3	10.1

Financials are as on FY22

Income Statement

Y/E March (Rs Mn)	FY19	FY20	FY21	FY22	TTM
Revenues	24620	22370	25160	39480	55170
Total operating Expense	19600	18030	20010	31990	44940
EBITDA	5020	4340	5150	7480	10230
Other Income	90	410	210	190	210
Depreciation	590	850	940	1090	1180
Interest	500	550	450	500	620
PBT	4020	3360	3970	6070	8640
Tax	1250	570	1090	1520	2130
Rate (%)	31%	17%	27%	25.0%	25%
PAT	2770	2790	2880	4550	6510

Source: Company Financials

Balance Sheet

Y/E March (Rs Mn)	FY19	FY20	FY21	FY22	H1FY23(Sep)
Sources of Funds					
Share Capital	180	180	180	180	180
Reserves & Surplus	12200	13620	15610	18960	21690
Net Worth	12380	13800	15790	19140	21870
Long term debt	6030	7080	8080	8880	11920
Other Liabilities & Provisions	4110	3930	5720	8270	11650
Capital Employed	22530	24810	29590	36290	45440
Application of Funds					
Fixed Asset	10430	12090	12880	14930	15670
Capital WIP	1780	1650	2930	2300	2130
Investment	330	20	10	180	750
Other Asset	10,000	11050	13780	18880	26890
Total Assets	22530	24810	29590	36290	45440

Source: Company Financials

Cash Flow Statement

Y/E March (Rs Mn)	FY19	FY20	FY21	FY22	H1FY23 (Sep)
Cash Flow from operating Activity	3140	3250	3570	2980	4030
Cash Flow from Investing Activity	-2540	-2600	-2530	-3380	-3940
Cash Flow from Financing Activity	520	-340	-260	-450	1320
Net Cash Flow	80	310	780	850	1410

Key Ratios

Y/E March (Rs Mn)	FY19	FY20	FY21	FY22	TTM
Per share (Rs)					
EPS	28.9	29.5	30.5	48.7	68.1
Valuation (x)					
P/E	136.6	133.9	129.5	81.1	55.2
Return Ratios (%)					
EBIDTA Margin	20%	19%	20%	19%	19%
PAT Margin	11.3%	12.5%	11.4%	11.5%	11.8%
ROE	22.4%	20.2%	18.2%	23.8%	29.8%
ROCE	26%	20%	20%	25%	27%
Leverage Ratio (%)					
Total D/E	0.3	0.4	0.4	0.5	0.5
Turnover Ratios					
Receivable Days	59	60	66	50	55
Inventory Days	74	99	119	113	64
Payable days	43	46	78	73	39

Technical Outlook



Solar Industries has given a breakout on monthly time frame and is now retesting the same breakout zone. The breakout is supported by heavy volume accumulation which further adds strength to the breakout.

On the upper end it can see 4268 which is the 52 Week High. Once we take out 4268 on the upper side, doors open to 5000 levels.

On the lower side 3600 shall act as a major support after which it can see a further selloff.

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