

Stock Update

Solar Industries Ltd.

Sept 17, 2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Specialty Chemicals	Rs 1963	Buy in the Rs 1950-1970 band & add more on dips to Rs 1789 band	Rs 2130	Rs 2290	2 quarters

HDFC Scrip Code	SOLINDEQNR
BSE Code	532725
NSE Code	SOLARINDS
Bloomberg	SOXP: IN
CMP Sept 16, 2021	1963
Equity Capital (Rs cr)	18.4
Face Value (Rs)	2
Equity Share O/S (cr)	9.2
Market Cap (Rs cr)	17,778
Book Value (Rs)	175
Avg. 52 Wk Volumes	54,978
52 Week High	2050
52 Week Low	977

Share holding Pattern % (Jun, 2021)	
Promoters	73.15
Institutions	22.2
Non Institutions	4.66
Total	100.0

Our Take:

Solar Industries Ltd (SIL), is a formidable player in the industrial explosives space in India and has a global manufacturing base across 6 countries around the globe. In the domestic market, SIL is one of the largest supplier to Coal India (CIL) and has been a dominant player in the distribution driven Trade channel (Housing and Infra). On the export side, its products (mainly cartridge explosives and accessories) are exported to 57 countries around the world. The exports and overseas segment has been a key growth driver for the company reporting 19% CAGR over FY12-21. Apart from this, SIL had ventured in the defense business in 2010 and had entered into highly synergic consumable products like Multi-mode hand grenade, HMX (High Melting explosives) & HMX compounds, composite propellants, pyros, igniters, fuses & rocket integration etc. We believe, post the investment phase over the last decade, the defense segment is at an inflection point and can multiply over next 2-3 years. As per the management guidance, defense in FY22 is likely to achieve a revenue of Rs. 300Cr v/s Rs.123Cr in FY21 and expects this segment to achieve a milestone of Rs. 600 of revenues by FY24. As on Q1FY22, its total order book stood at Rs. 633Cr. SIL has a market share of 28–30% in domestic industrial explosive space; its market share in the housing and infrastructure segment also is in a similar range.

The company has also guided an overall revenue growth of 30% in FY22 over FY21. SIL's CIL and Singareni Collieries (SCCL) order book as on Q1FY22 stood at Rs. 1071Cr up 50/29% on a YoY/QoQ basis.

On 7th June, 2021, we had initiated coverage report (<https://www.hdfcsec.com/hsl.research.pdf/Solar%20Industries%20Ltd-%20Initiating%20Coverage%20V2.pdf>) on Solar Industries Ltd and recommended to buy at LTP at Rs 1557 and add further on dips to Rs. 1412 for base case target of Rs 1704 and bull case target of Rs 1826. The stock has achieved its bull case target recently on 13th Sept 2021. Given healthy growth outlook and strong set of numbers in Q1FY22, we re-iterate our positive view on the stock and expect the stock to further get re-rated. Consequently, we have now revised earnings and increased target price for SIL.

Valuation & Recommendation:

We believe, within the Industrial explosives space, SIL is a unique company which has strong pricing power and has been exhibiting consistent better than industry performance for more than 2 decades. Going forward, we expect SIL's revenue, EBITDA & PAT to report a growth of CAGR 23/24.5 and 31% respectively over FY21-23E. Segment-wise we expect Defense revenues to reach Rs. 500Cr by FY23 up 4x over FY21 while exports and overseas are expected to grow by 20.7% CAGR for next 2 years. Apart from these, domestic business like CIL/ institutional and trade channel are expected to grow at a CAGR of 12.5/13.9 and 13.5% respectively over FY21-23E.



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report.
* Refer at the end for explanation on Risk Ratings

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The stock is currently trading at valuation of 37x FY23E earnings. We feel the Base case fair value of the stock is Rs. 2130 (40x FY23E) and Bull case fair value is Rs. 2290 (43.5x FY23E). We feel investors can buy the stock at LTP and further add at Rs 1789.

Financial Summary

Particulars (Rs cr)	Q1FY22	Q1FY21	YoY-%	Q4FY21	QoQ-%	FY19	FY20	FY21	FY22E	FY23E
Total Operating Income	826	491	68.2	791	4.4	2,462	2,237	2,515	3,269	3,806
EBITDA	176	92	91.0	165	6.7	496	434	514	665	797
Depreciation	26	23	14.0	23	15.4	59	85	94	104	113
Other Income	1	4	-79.4	2	-67.2	15	41	21	39	46
Interest Cost	10	12	-16.3	10	-1.7	50	55	45	42	38
Tax	39	17	133.5	39	0.6	125	57	109	148	180
PAT	101	42	140.0	91	10.8	262	267	276	386	476
Diluted EPS (Rs)	11	5	134.8	10	8.0	28.9	29.6	30.5	42.7	52.6
RoE						24%	18%	19%	23%	25%
P/E (x)						67.9	66.4	64.3	46.0	37.2
EV/EBITDA						36.5	40.6	35.2	27.2	22.7

(Source: Company, HDFC sec)

Q1FY22 Result Review

Solar Industries (SIL) reported a strong Q1FY22 quarter albeit on a favorable base. Its revenue stood at Rs. 826Cr up 68/4.4% on a YoY/QoQ basis. Explosives segment revenue stood at Rs. 419Cr registering a growth of 74/0.2% YoY/QoQ. Higher growth was mainly driven by +45/-5% YoY/QoQ volume growth while realizations grew by 20.6/6% on a YoY/QoQ basis. Accessories segment revenue stood at Rs. 96Cr registering a growth of +57/-14% YoY/QoQ.

Segment-wise CIL/ Institutional/ Trade/ Overseas and Exports and Defense revenue grew at 46/110/101/50 and 94% respectively on a YoY basis. Sequentially, barring the trade segment where revenues declined by 11.5%, CIL/ Institutional/Exports and defense segment reported a revenue growth of 3/18.4/7.1 and 139% respectively.

EBITDA for the quarter stood at Rs. 176Cr up 91/6.7% on a YoY/QoQ basis which was mainly driven by strong operating leverage, stable raw material prices and strong overseas and export business.

Consequently, PAT for the quarter stood at Rs. 100.8Cr up 130/6% on a YoY/QoQ basis.

SIL's Nagpur facility has the world's largest manufacturing facility for packaged explosives. SIL has projected annual outlay of RS.300Cr for FY22 geared towards establishing facilities to tap into strong demand. SIL is expected to come up with a plant in southern and extreme



northern region thereby improving its geographical reach and capacity. It expects the exports to continue delivering strong growth with operations in newer territories of Ghana and Tanzania starting to stabilize. The company is working with DRDO to build newer products in the Defense vertical. Ammonium nitrate is the main component used as raw material by the company which is sourced 80% domestically and 20% from outside with prices being set on monthly, quarterly and annually basis along with flexibility in pricing.

Quarterly Operational performance trend

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Segment-wise Rev Break-up									
CIL	110	75	90	106	98	87	98	139	143
Institution	72	66	81	70	49	53	73	89	103
Housing and Infra	212	109	131	163	108	112	166	245	217
Export and Overseas	196	202	222	174	208	266	280	291	312
Defense	25	45	26	27	24	57	23	20	47
Others	6	9	12	8	6	13	5	9	4
Product-wise Rev Break-up									
Explosives	342	216	278	295	241	222	278	418	419
Accessories	82	67	74	73	61	61	92	111	96
Explosives									
Volume	92531	63611	86386	94927	70287	69194	86265	107336	101782
Realisation	36939	34015	32203	31027	34238	32074	32304	38922	41161
Explosives-EBITDA/Kg	37.0	34.0	32.2	31.1	34.3	32.1	32.2	38.9	41.2
Total Order Book	897	1645	1396	1304	1153	1745	1635	1510	1704

(Source: Company, HDFC sec)

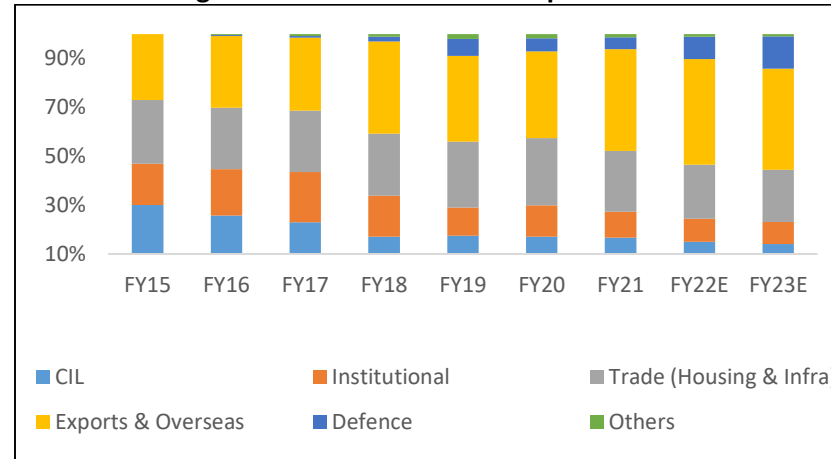
Change in Estimates

	Previous		Revised	
	FY22E	FY23E	FY22E	FY23E
Revenue	3212	3593	3269	3806
EBITDA	650	728	665	797
PAT	387	441	386	476
EPS	42.7	48.7	42.7	52.6

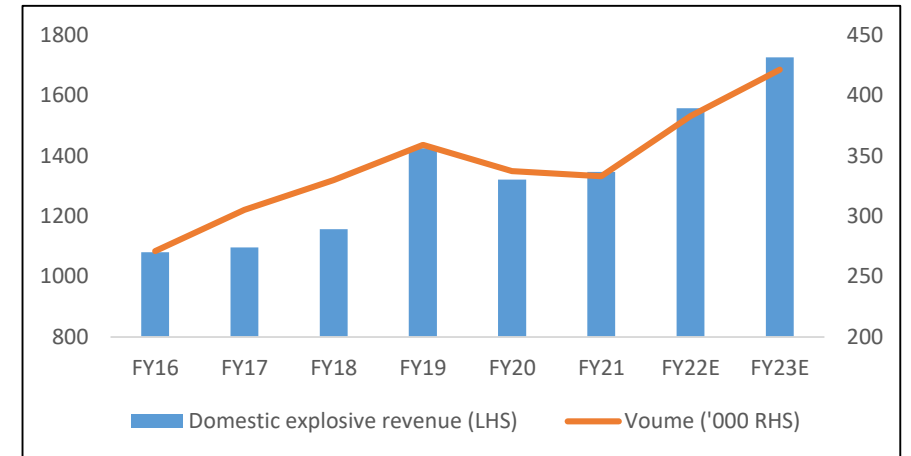
(Source: HDFC sec)



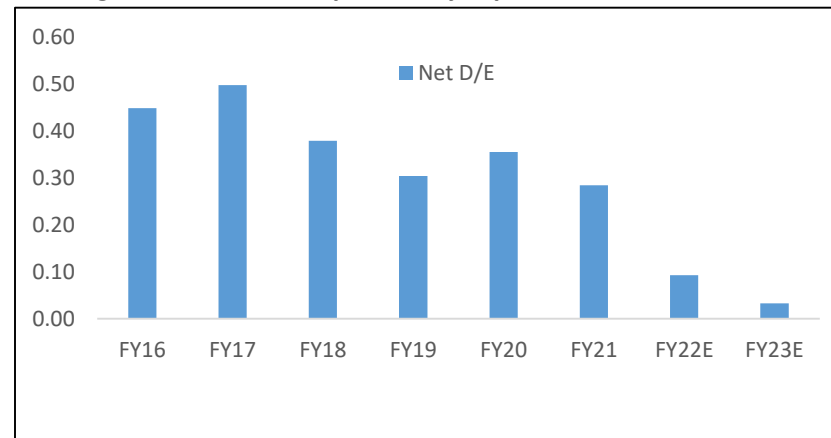
Segment-wise revenue break-up



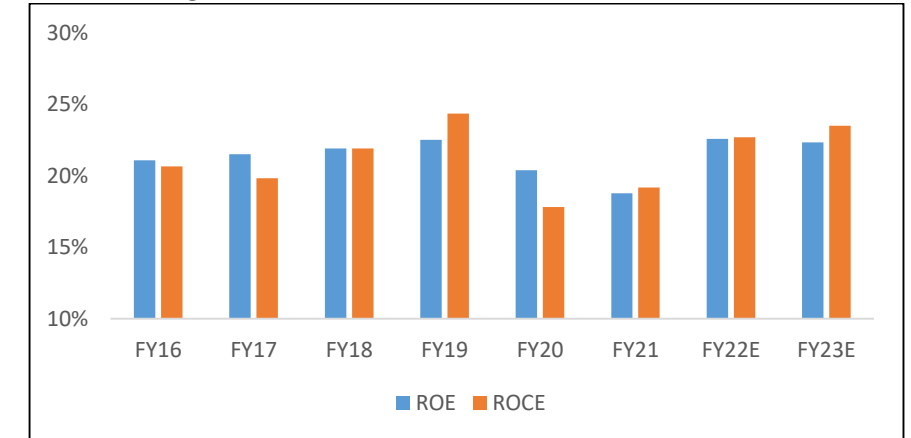
Domestic explosive growth trend



Leverage to moderate despite heavy capex



Consistent high return ratios



(Source: Company, HDFC sec)



Financials

Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	2462	2237	2515	3269	3806
Growth (%)	28%	-9%	12%	30%	16%
Operating Expenses	1966	1803	2001	2604	3009
EBITDA	496	434	514	665	797
Growth (%)	21%	-12%	19%	29%	20%
EBITDA Margin (%)	20.1%	19.4%	20.5%	20.3%	20.9%
Depreciation	59	85	94	104	113
EBIT	437	349	421	561	685
Other Income	15	41	21	39	46
Interest expenses	50	55	45	42	38
PBT	402	336	397	559	692
Tax	125	57	109	148	180
RPAT	277	278	288	411	512
APAT	262	267	276	386	476
Growth (%)	19%	2%	3%	40%	23%
EPS	28.9	29.6	30.5	42.7	52.6

Balance Sheet

As at March	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	18	18	18	18	18
Reserves	1221	1362	1561	1893	2297
Shareholders' Funds	1239	1380	1579	1911	2315
Long Term Debt	469	610	627	577	527
Other Liabilities	94	32	42	46	51
Minority Interest	47.6	51.5	62.7	72.1	82.9
Total Source of Funds	1848	2074	2311	2607	2975
APPLICATION OF FUNDS					
Net Block & Goodwill	1043	1191	1263	1454	1516
CWIP	178	165	293	59	47
Other Non-Current Assets	61	111	47	65	114
Non-Current Investments	33	2	2	2	2
Total Non Current Assets	1314	1469	1605	1580	1680
Inventories	283	331	441	493	574
Trade Receivables	399	370	456	537	626
Cash & Equivalents	92	120	179	401	451
Other Current Assets	165	157	149	163	305
Total Current Assets	938	978	1225	1594	1955
Trade Payables	163	154	286	269	313
Other Current Liab & Provisions	241	218	232	299	347
Total Current Liabilities	404	373	518	567	660
Net Current Assets	534	605	706	1027	1296
Total Application of Funds	1848	2074	2311	2607	2975



Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Reported PBT	402	336	397	559	692
Non-operating & EO items	-21	-10	30	0	0
Interest Expenses	50	55	45	42	38
Depreciation	59	85	94	104	113
Working Capital Change	41	-34	-106	-99	-219
Tax Paid	-125	-108	-104	-148	-180
OPERATING CASH FLOW (a)	406	324	356	457	444
Capex	-271	-239	-265	-61	-163
Free Cash Flow	135	85	91	397	281
Investments	-16	0	0	0	0
Non-operating income	74	26	15	-32	-72
INVESTING CASH FLOW (b)	-212	-213	-250	-93	-236
Debt Issuance / (Repaid)	-12	97	80	-50	-50
Interest Expenses	-77	-57	-49	-42	-38
FCFE	46	125	122	305	192
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Others	-105	-121	-60	-41	-69
FINANCING CASH FLOW (c)	-193	-81	-29	-132	-158
NET CASH FLOW (a+b+c)	0	30	77	232	51

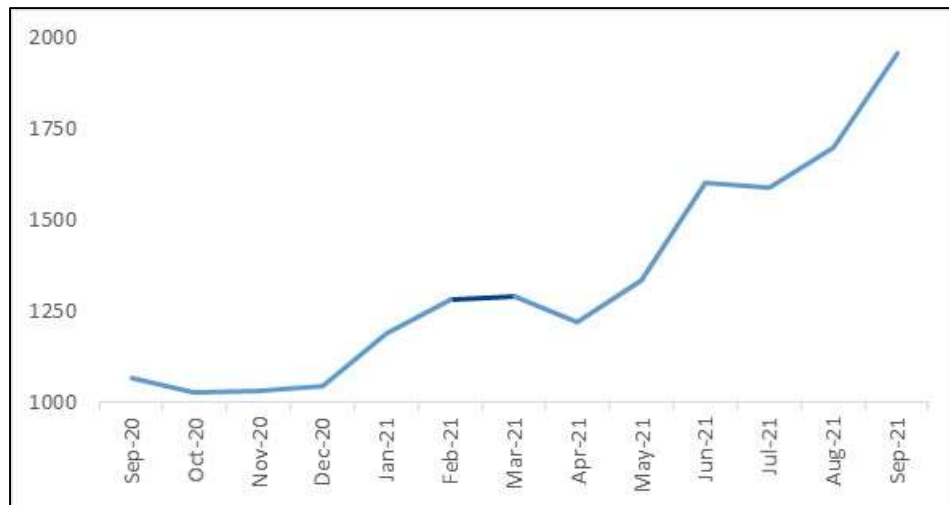
Key Ratios

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
EBITDA Margin	20.1%	19.4%	20.5%	20.3%	20.9%
EBIT Margin	17.8%	15.6%	16.7%	17.2%	18.0%
APAT Margin	10.6%	11.9%	11.0%	11.8%	12.5%
RoE	23%	20%	19%	22%	23%
RoCE	24%	18%	19%	23%	25%
Solvency Ratio					
Net Debt/EBITDA (x)	0.8	1.1	0.9	0.3	0.1
Net D/E	0.3	0.4	0.3	0.1	0.0
PER SHARE DATA					
EPS	28.9	29.6	30.5	42.7	52.6
CEPS	35.4	38.9	40.8	54.1	65.1
Dividend	7	6	6	6	8
BVPS	137	152	175	211	256
Turnover Ratios (days)					
Debtor days	57	63	60	60	60
Inventory days	38	50	56	55	55
Creditors days	22	26	32	30	30
VALUATION					
P/E	68	66	64	46	37
P/BV	14	13	11	9	8
EV/EBITDA	37	41	35	27	23
EV / Revenues	7	8	7	6	5
Dividend Yield (%)	0.4%	0.3%	0.3%	0.3%	0.4%
Dividend Payout (%)	24%	20%	20%	14%	15%

(Source: Company, HDFC sec)



ONE YEAR STOCK PRICE CHART



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Blue Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

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This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.



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