

RESEARCH
SOLAR INDUSTRIES | NOT RATED

Growth focused

SUMMARY
SOLAR INDUSTRIES

- Dominant player in explosives, both in India and overseas, focused on expanding its competencies in defence
- Building blocks in place for a shift from operational consolidation to accelerated growth
- Volumes guided to increase 15-20% over 2-3Y with EBITDA margin at 18-20%; defence contribution pegged at 10-15% after 3Y

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Daily macro indicators

Indicator	21-Dec	22-Dec	Chg (%)
US 10Y yield (%)	3.66	3.68	2bps
India 10Y yield (%)	7.29	7.31	3bps
USD/INR	82.82	82.76	0.1
Brent Crude (US\$/bbl)	82.2	81.0	(1.5)
Dow	33,376	33,027	(1.0)
Hang Seng	19,160	19,679	2.7
Sensex	61,067	60,826	(0.4)
India FII (US\$ mn)	20-Dec	21-Dec	Chg (\$ mn)
FII-D	(0.9)	(42.4)	(41.6)
FII-E	147.1	(60.3)	(207.5)

Source: Bank of Baroda Economics Research

BOBCAPS Research

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| Capital Goods

| 23 December 2022

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We met the senior management of Solar Industries (SOIL, Not Rated). Takeaways:

Optimistic outlook: Management anticipates 15-20% domestic volume growth over 2-3 years, with 18-20% EBITDA margins. Post business consolidation over FY11-FY22, SOIL expects overseas operations to ramp up as newer geographies (Australia, Ghana, Tanzania) have stabilised. The defence segment is also likely to gain traction with the execution of an export ammunition order and another for multi-mode hand grenades (MMHG). Three years down the line, management expects defence to contribute 10-15% of revenue (6% in H2FY23), with the balance coming from the core explosives business (including 38-40% from exports & overseas sales).

Well placed for accelerated growth: In the **initial phase till FY11**, SOIL leveraged its dominance in its core category (explosives) with a domestic focus. The company has since transformed from a trader in explosives to India's largest integrated industrial explosives manufacturer. In **Phase 2 (FY11-FY22)**, SOIL's impetus was on scaling up manufacturing facilities overseas, which aided an overall revenue CAGR of 17% through to FY22. It simultaneously incubated the defence business which eventually witnessed an uptick in FY17. Now, SOIL is entering **Phase 3**, supported by stabilisation of its core business overseas, with incremental traction from defence.

Dominance in core portfolio to sustain growth: SOIL dominates the domestic explosives segment with a market share of 25%, backed by scale, strategic initiatives (plants in the vicinity of major mining areas), and deep customer understanding. It has also augmented its global position and features among the top 10 players. Explosives, largely being consumables, are prone to low cyclicality and hence display secular growth. Combined, the domestic and overseas explosives segments form 93% of revenue.

Defence to expand: Among the dominant players in defence consumables, SOIL also has exclusive transfer of technology (Pinaka rocket, BrahMos propellant) which it expects will sustain order flows for 5-7 years. It is working on ambitious projects to spur growth, such as the high-mobility LR precision rocket system and counter drone systems, while also being a strategic investor in Skyroot (space) and ZMotion (UAV).

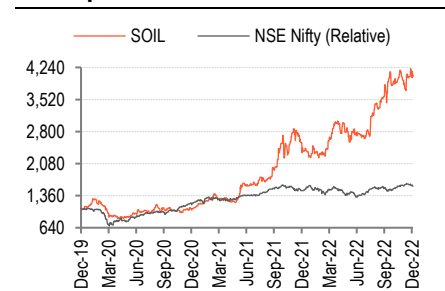
Ticker/Price	SOIL IN/Rs 4,051
Market cap	US\$ 4.4bn
Free float	27%
52wk high/low	Rs 4,269/Rs 2,160
Promoter/FPI/DII	73%/7%/15%

Source: NSE | Price as of 22 Dec 2022

Key financials

Y/E 31 Mar	FY20A	FY21A	FY22A
Total revenue (Rs mn)	22,373	25,156	39,476
EBITDA (Rs mn)	4,343	5,146	7,473
Adj. net profit (Rs mn)	2,899	2,998	4,697
Adj. EPS (Rs)	32.0	33.1	51.9
Adj. ROAE (%)	22.1	20.3	26.9
Adj. P/E (x)	126.5	122.3	78.1
EV/EBITDA (x)	86.2	72.7	50.1
Adj. EPS growth (%)	(2.7)	3.4	56.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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