

**NOT RATED****SOLAR INDUSTRIES**

Capital Goods

23 December 2022

**Growth focused**

- 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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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).

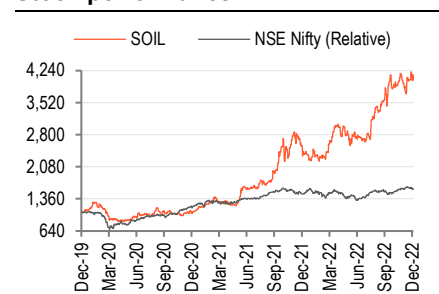
Ticker/Price	SOIL IN/Rs 4,051
Market cap	US\$ 4.4bn
Free float	27%
52wk high/low	Rs 4,269/Rs 2,160
Promoter/FPI/DII	73%/7%/15%

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



## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22A
<b>Total revenue</b>	<b>19,515</b>	<b>24,616</b>	<b>22,373</b>	<b>25,156</b>	<b>39,476</b>
COGS	10,989	14,009	12,150	13,468	23,273
Employee Expense	1,335	1,842	2,066	2,306	2,896
Other expense	3,075	3,745	3,814	4,236	5,834
<b>EBITDA</b>	<b>4,116</b>	<b>5,019</b>	<b>4,343</b>	<b>5,146</b>	<b>7,473</b>
<b>EBITDA margin (%)</b>	<b>21.1</b>	<b>20.4</b>	<b>19.4</b>	<b>20.5</b>	<b>18.9</b>
Depreciation	513	589	845	935	1,093
EBIT	3,603	4,431	3,498	4,211	6,380
Net interest inc./(exp.)	327	499	550	454	503
Other inc./(exp.)	121	147	411	214	197
EBT	3,396	4,079	3,358	3,971	6,074
Income taxes	1,061	1,251	571	1,090	1,520
Extraordinary items	-	61	-	-	-
Min. int./Inc. from assoc.	130	152	112	117	142
<b>Reported net profit</b>	<b>2,466</b>	<b>2,920</b>	<b>2,899</b>	<b>2,998</b>	<b>4,697</b>
Adjustments	-	61	-	-	-
<b>Adjusted net profit</b>	<b>2,466</b>	<b>2,980</b>	<b>2,899</b>	<b>2,998</b>	<b>4,697</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22A
Accounts payables	1,272	1,633	1,544	2,861	4,649
Other current liabilities	2,142	2,483	2,204	1,804	2,227
Debt funds	3,879	4,645	6,102	7,861	8,661
Other liabilities	1,346	1,202	1,158	1,350	1,557
Minority Interest	474	476	515	627	1,006
Equity capital	181	181	181	181	181
Reserves & Surplus	10,658	12,202	13,620	15,613	18,962
<b>Total liab. and equities</b>	<b>19,951</b>	<b>22,821</b>	<b>25,323</b>	<b>30,297</b>	<b>37,243</b>
Cash and cash eq.	695	918	1,201	1,812	988
Accounts receivables	3,636	3,990	3,703	4,555	5,411
Inventories	2,324	2,827	3,310	4,405	7,189
Other current assets	1,518	1,884	1,621	1,485	3,022
Net fixed assets	9,355	10,554	12,213	12,980	15,020
CWIP	968	1,656	1,522	2,824	2,211
Other assets	1,456	991	1,753	2,236	3,403
<b>Total assets</b>	<b>19,951</b>	<b>22,821</b>	<b>25,323</b>	<b>30,297</b>	<b>37,243</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22A
<b>Cash flow from</b>	<b>2,916</b>	<b>3,138</b>	<b>3,248</b>	<b>3,567</b>	<b>2,978</b>
Capital expenditures	(2,227)	(2,498)	(2,397)	(2,608)	(2,808)
Change in investments	297	(243)	368	189	(191)
Other investing cash flows	186	719	(114)	(89)	(32)
<b>Cash flow from investing</b>	<b>(1,743.3)</b>	<b>(2,022.6)</b>	<b>(2,143.0)</b>	<b>(2,507.4)</b>	<b>(3,030.5)</b>
Equities issued/Others	54	-	-	-	-
Debt raised/repaid	(216)	760	924	810	659
Other financing cash flows	(746)	(1,278)	(1,239)	(1,070)	(1,113)
<b>Cash flow from financing</b>	<b>(907)</b>	<b>(517)</b>	<b>(316)</b>	<b>(261)</b>	<b>(454)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>266</b>	<b>598</b>	<b>790</b>	<b>799</b>	<b>(507)</b>

### Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20A	FY21A	FY22A
Reported EPS	27.3	32.3	32.0	33.1	51.9
Adjusted EPS	27.3	32.9	32.0	33.1	51.9
Dividend per share	6.0	7.0	6.0	6.0	7.5
Book value per share	119.8	136.8	152.5	174.5	211.5

### Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20A	FY21A	FY22A
EV/Sales	19.2	15.2	16.7	14.9	9.5
EV/EBITDA	90.9	74.6	86.2	72.7	50.1
Adjusted P/E	148.6	123.0	126.5	122.3	78.1
P/BV	33.8	29.6	26.6	23.2	19.2

### DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20A	FY21A	FY22A
Tax burden (Net profit/PBT)	0.7	0.7	0.9	0.8	0.8
Interest burden (PBT/EBIT)	0.9	0.9	1.0	0.9	1.0
EBIT margin (EBIT/Revenue)	0.2	0.2	0.2	0.2	0.2
Asset turnover (Rev./Avg TA)	2.1	2.3	1.8	1.9	2.6
Leverage (Avg TA/Avg Equity)	0.9	0.9	0.9	0.9	0.9
<b>Adjusted ROAE</b>	<b>24.5</b>	<b>25.7</b>	<b>22.1</b>	<b>20.3</b>	<b>26.9</b>

### Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20A	FY21A	FY22A
<b>YoY growth (%)</b>					
Revenue	14.0	26.1	-9.1	12.4	56.9
EBITDA	27.1	22.0	-13.5	18.5	45.2
Adjusted EPS	21.5	20.8	-2.7	3.4	56.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	21.1	20.4	19.4	20.5	18.9
EBIT margin	18.5	18.0	15.6	16.7	16.2
Adjusted profit margin	12.6	12.1	13.0	11.9	11.9
Adjusted ROAE	24.5	25.7	22.1	20.3	26.9
ROCE	24.5	26.0	17.6	17.8	22.9
<b>Working capital days (days)</b>					
Receivables	68	59	60	66	50
Inventory	43	42	54	64	66
Payables	24	24	25	42	43
<b>Ratios (x)</b>					
Gross asset turnover	2.1	2.3	1.8	1.9	2.6
Current ratio	2.4	2.3	2.6	2.6	2.4
Net interest coverage ratio	11.0	8.9	6.4	9.3	12.7
<b>Adjusted debt/equity</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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**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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