

Solar Industries India Ltd (SIIL)

MARKET PERFORMER

Sector: Chemicals /Mid Cap | Earnings Update – 1QFY22

3 August 2021

Background: 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. With a licensed explosives capacity of over 290,000 MT/annum, the company has ~28% market share in India. Solar, with a 70% market share in exports from India, exports to 51 countries around the world. Economic Explosives, a 100% subsidiary, 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 coal mines (in Chhattisgarh) through two JVs.

Sensex	53,823
Nifty	16,131
Price	₹1,717
Target Price (12 months)	₹1,811
Recommendation	MARKET PERFORMER

52 Week High/Low	₹1,754/925
Bloomberg / Reuters	SOIL IN/SOIL.BO
Equity (shares in mn)	₹90.5
Mkt. Cap in mn	₹143,895/\$1,973
Avg. Daily Vol. ('000)	583.6
Avg. Daily Vol. (mn)	₹927.9/\$12.7

Shareholding	Jun 20	Mar 21	Jun 21
Promoters (%)	73.2	73.2	73.2
FII (%)	4.4	5.4	5.5
DII (%)	17.7	16.8	16.7
Others (%)	4.8	4.6	4.7
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)

Y/E March	2021	2022E	2023E
Revenue	25.2	32.3	39.4
EBITDA	5.1	6.5	8.1
PAT	2.8	3.7	4.7
EPS	30.6	41.3	51.7
% growth	3.5	35.1	25.2
P/E	56.1	41.5	33.2
P/BV	9.5	8.0	6.4
EV/EBITDA	30.7	23.8	19.4
EV/Sales	6.3	4.8	4.0
Dividend Yield	0.5	0.5	0.0
ROE	18.0	20.9	21.6

Performance(%)	1M	3M	12M
SIIL	6.1%	41.9%	76.9%
SENSEX	1.8%	11.5%	42.8%

Strong show driven by upbeat performance across verticals; Management maintains its revenue guidance of 30% for FY23

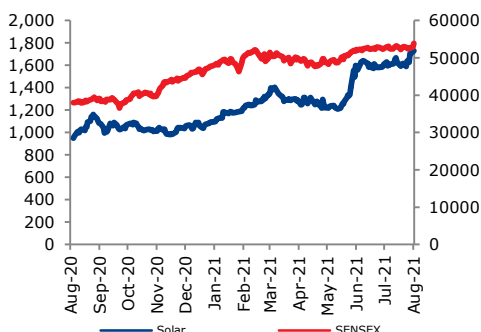
- During 1QFY22, net sales of Solar Industries India Limited (SIIL) went up by 68% YoY to ₹8.3bn; led by an all-round performance Coal (+45% YoY), Housing & Infra (+102% YoY) Exports segments (+51% YoY) and non coal & institutional (112% YoY), the only blip being others segment which witnessed a decline of (33% YoY). For FY22E, the management has maintained its revenue growth guidance of 30% and EBITDA margin guidance of ~20-22%.
- Gross margins contracted ~197 bps YoY & 171 bps QoQ on account of higher input costs. Nonetheless, positive operating leverage aided EBITDA margins, which came in at 21.2% vs. 18.7% YoY & 20.8% QoQ. EBITDA came in at ₹1.7bn, up 90% YoY & 6.2% QoQ.
- Segment wise performance:** Explosives volume increased by 45% YoY while realisations jumped by 20% YoY, as a result, overall explosives segment revenue leaped 74% YoY to ₹4.2bn. Accessories segment fell by 14% YoY to ₹1.1bn. Defence sales stood at ₹467mn (+99% YoY) and contributed 6% to total sales in 1QFY22. Order book at the end of 1QFY22 stood at ₹17.0bn (Defence: ₹6.3bn and Coal/Singareni: ₹10bn), which has increased from ₹15bn at the end of FY21.
- Exports & overseas markets continued the robust growth momentum, with the highest-ever quarterly sales of ₹3.1bn (38% of total sales), up 51% YoY. The management highlighted that expansion in overseas markets had been halted due to COVID-19, but it is expected to resume in the next 3-6 months. The plant in Tanzania will be operational by end-FY22. The management highlighted that margins will increase after the expansion in overseas geographies.
- Capex plan:** Management has decided to increase its packaged explosives manufacturing capacity. SIIL is expected to come up with a plant in southern and extreme northern region thereby improving its geographical reach and capacity. The capital expenditure will be met through internal accrual with Net Debt to Equity 0.5-0.6x (current levels) not to be exceeded. For FY22E, SIIL has guided for a capex of ~₹3.0bn.

Valuation: SIIL reported strong set of earnings for 1QFY22 driven by robust momentum in overseas & exports business. The only drag in performance has been the sluggish defence segment, which we believe is poised for a turnaround post the Multi-mode hand grenade order wins. SIIL is confident of increasing revenue from defence to ₹3.0bn this financial year and subsequently to ₹6.0bn by FY24E. The strong growth will primarily be led by scale-up in domestic markets (pick-up in mining activities and revival in housing & construction sector), exports & overseas business (expansion in more countries) and defence (commencement of MMHG shipments and a healthy order pipeline). Revenue from mining is expected to increase 25% YoY and further to 70-80% in the next three years. Strong order book, turnaround in defence segment coupled with foreign subsidiaries reaching breakeven is expected augur well for Solar Industries in FY22. Given upbeat 1QFY22 performance, optimistic management guidance and improving product mix (higher share of defence and overseas business) we have raised our FY22 & FY23 estimates higher. At CMP the stock is trading at 33.2x its FY23E, we revise our rating on the stock from BUY to Market Performer, with revised target price of ₹1,811 (earlier ₹1,678).

Risks: Foreign Currency impact and delay in defense sales.

Results Summary 1QFY22

Y/E March (₹ mn)	1QFY22	1QFY21	YoY Growth	4QFY21	QoQ Growth
Revenue	8,252	4,911	68.0%	7,914	4.3%
EBIDTA	1,747	919	90.1%	1,646	6.2%
Depreciation	252	228	10.5%	225	11.8%
Other Income	8	39	-79.4%	24	-67.2%
PBT	1,401	607	130.7%	1,340	4.6%
Tax	392	168	134.2%	390	0.5%
PAT	1,009	440	129.4%	949	6.2%
Adjusted PAT	1,009	440	129.4%	949	6.2%
EBIDTA Margin	21.2%	18.7%		20.8%	
Tax Incidence	28.0%	27.6%		29.1%	
Adj PAT Margin	12.2%	9.0%		12.0%	



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Served as an officer, director or employee	No

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