

Solar Industries India Ltd (SIIL)

Sector: Chemicals /Mid Cap | Earnings Update – 2QFY21

MARKET PERFORMER

24 November 2020

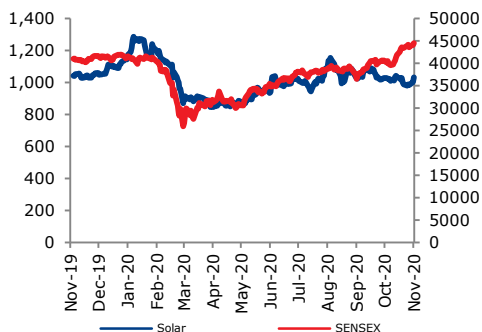
Background: Established in 1995, Solar Industries is the largest manufacturer of industrial explosives and explosive initiating systems in India and has the world's largest manufacturing facility for packaged explosives. With a licensed explosives capacity of over 290,000 MT/annum, the company has ~28% 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	44,534
Nifty	13,058
Price	₹1,037
Target Price (12 months)	₹1,104
Recommendation	MARKET PERFORMER
52 Week High/Low	₹1,350/772
Bloomberg / Reuters	SOIL IN/SOIL.BO
Equity (shares in mn)	₹90.5
Mkt. Cap in mn	₹94,482/\$1,321
Avg. Daily Vol. ('000)	168.7
Avg. Daily Vol. (mn)	₹176.2 /\$2.5

Shareholding	Sept 19	Jun 20	Sept 20
Promoters (%)	73.2	73.2	73.2
FII (%)	3.6	4.4	4.8
DII (%)	18.6	17.7	17.3
Others (%)	4.6	4.8	4.7
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2020	2021E	2022E
Revenue	22.4	23.5	28.2
EBITDA	4.3	4.9	5.9
PAT	2.7	2.5	3.2
EPS	29.6	27.7	35.6
% growth	2.3	-6.2	28.4
P/E	35.1	37.4	29.1
P/BV	6.5	5.8	4.8
EV/EBITDA	22.3	19.7	15.8
EV/Sales	4.3	4.1	3.3
Dividend Yield	0.7	0.8	0.0
ROE	20.0	16.4	18.0

Performance(%)	1M	3M	12M
SIIL	0.4%	-5.7%	-1.3%
SENSEX	9.4%	14.7%	8.9%



Strong show driven by sharp recovery in overseas & exports business. The global economic recovery coupled with entry into new geographies to drive growth in coming quarters

- During 2QFY21, net sales of Solar Industries India Limited (SIIL) went up by 19.6% YoY to ₹5.8bn; on account of strong business recovery across all geographies.
- Sales of domestic explosives grew 3% YoY to ₹2.2bn driven by 9% YoY increase in volume (at 69,194MT vs. 63,611 MT) while realization fell by 6% YoY (₹32,074/MT vs. ₹34,015/MT). Customer-wise, sales to Coal India/Housing & Infra segment grew 15%/2% YoY to ₹866mn/₹1.1bn while institutional sales declined 19% YoY to ₹530mn.
- Exports & overseas markets reported highest ever quarterly sales of ₹2.7bn (45% of total sales), up 32% YoY in 2QFY21, driven by recovery in markets of Turkey, Ghana and South Africa. Excluding the foray into new markets like Ghana and Tanzania, growth was at 18% YoY. Overall, the management is quite certain of growth in O&E business in coming years on the back of entry into new geographies and market share gains in the current ones.
- EBITDA grew 18% YoY to ₹1.3bn, leading to an operating margin of 21.4%, up 30bps YoY. Gross margin grew 250bps YoY to 50.8% owing to better product mix (higher share of defense and overseas business) and lower commodity prices.
- The Company's foray into Indonesia and Australia are progressing well. In Indonesia, the two plants of detonators and cast boosters are likely to be set up in next 6 months. In Australia, SIIL is setting up the plant of initiating systems. SIIL expects this segment to achieve revenue of ~₹9.5bn in FY21E and post double-digit growth in the next 5 years.
- SIIL's net debt stood at ₹7.2bn in 2QFY21 vs. ₹6.2bn in FY20. Gross debt rose to ₹8.3bn in 2QFY21 vs. ₹7.1bn in FY20.
- The planned Capex for FY21E stood at ₹2.1bn (of which ₹1.1bn has already been spent in 1HFY21). The capex would be evenly split (₹600mn-₹700mn each) towards the domestic markets (for capacity up gradation and technology expansion), overseas markets and the defense segment.

Valuation: The company reported strong set of earnings for 2QFY21 driven by sharp recovery in overseas & exports business, which achieved highest ever quarterly revenues. The company's entry into new geographies coupled with market share gains in existing business is likely to drive earnings growth in coming quarters. The management remains optimistic of top line exceeding FY20 while sustaining margins at current levels. The company's defence order book increased from ₹3.4bn in 1QFY21 to ₹7.1bn in 2QFY21, revenues from which are expected to begin from 4QFY21. Given upbeat Q2'FY21 performance, optimistic management guidance and improving product mix (higher share of defense and overseas business) we further upgrade our rating on the stock from UNDER PERFORMER to MARKET PERFORMER, with revised target price of ₹1,104 (earlier ₹971) valuing the company at 31x FY22 EPS

Risks: Fluctuation in currency and delay in execution of projects.

Results Summary 2QFY21

Y/E March (₹ mn)	2QFY21	2QFY20	YoY Growth	1QFY21	QoQ Growth
Revenue	5,873	4,911	19.6%	5,066	15.9%
EBIDTA	1,259	919	36.9%	1,067	17.9%
Depreciation	239	228	4.7%	209	14.4%
Other Income	19	39	-51.8%	61	-69.1%
PBT	922	607	51.9%	775	19.0%
Tax	246	168	46.9%	-91	-370.6%
PAT	676	440	53.8%	866	-21.9%
Adjusted PAT	676	440	53.8%	866	-21.9%
EBIDTA Margin	21.4%	18.7%		21.1%	
Tax Incidence	26.7%	27.6%		-11.7%	
Adj PAT Margin	11.5%	9.0%		17.1%	

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Served as an officer, director or employee	No

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