

# Solar Industries India Ltd (SIIL)

Sector: Chemicals /Mid Cap | Earnings Update – 3QFY22

**OUT PERFORMER**

2 February 2022

**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	58,863
Nifty	17,577
Price	₹2,300
Target Price (12 months)	₹2,461
Recommendation	OUT PERFORMER
52 Week High/Low	₹2,933/1,125
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	Dec 20	Sept 21	Dec 21
Promoters (%)	73.2	73.2	73.2
FII (%)	5.4	5.8	6.4
DII (%)	16.7	16.2	15.4
Others (%)	4.9	4.9	5.1
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2022E	2023E	2024E
Revenue	35.2	43.0	52.8
EBITDA	7.1	8.8	10.9
PAT	4.1	5.1	6.3
EPS	45.3	56.6	69.5
% growth	48.1	25.0	22.6
P/E	50.8	40.6	33.1
P/BV	10.6	8.7	7.2
EV/EBITDA	29.3	23.8	19.1
EV/Sales	5.9	4.9	4.0
Dividend Yield	0.4	0.4	0.5
ROE	22.7	23.6	23.8

Performance(%)	1M	3M	12M
SIIL	-3.7%	-4.8%	90.0%
SENSEX	0.4%	10.9%	39.5%



## Strong show driven by upbeat performance across business verticals; Management raises its revenue growth guidance from 40% to 50% for FY22

- During 3QFY22, net sales of Solar Industries India Limited (SIIL) went up by 57.6% YoY to ₹10.2bn; led by an all-round performance; Coal ₹979mn (+96% YoY), Housing & Infra ₹1.7bn (+29% YoY), Exports segments ₹2.8bn (+35% YoY) and non-coal & institutional ₹731.3mn (+102% YoY), Defense ₹229mn (+218%) and others segment coming in at ₹54.4mn (+157% YoY). For FY22E, the management has increased its revenue growth guidance from 40% to 50% on the back of a strong 9MFY21 performance (+50% YoY) and maintained its EBITDA margin guidance of ~20-22%.
- During the quarter gross margins contracted ~290 bps YoY on account of higher input costs (commodity costs pressure). EBITDA grew by 34.6% YoY to ₹1.7bn, although EBITDA margins declined and came in at 17.5% YoY. SIIL has set a target of 19-20% EBITDA margin this year on the back of rising commodity prices. However, in the coming year (FY23), it is expected to reach 21-22%.
- Segment wise performance:** Explosives volume increased by 21.4% YoY while realisations jumped by 51.7% YoY. Overall explosives segment revenue leaped 84.1% YoY to ₹5.1bn. Accessories segment went up by 9.8% YoY to ₹1.1bn. Defence sales stood at ₹728mn (+217.6% YoY) and contributed 7% to total sales in 3QFY22. Order book at the end of 3QFY22 stood at ₹27.3bn. Currently, export and overseas are contributing around 37% of revenues and is expected to achieve 40% in coming quarters. Defence segment is anticipated to contribute around 15% of revenue in coming quarters.
- The overseas segment continues to perform better as South Africa is close to attaining break even on the EBITDA side in the next quarter. In Australia, SIIL has set-up a Greenfield expansion, which will start operating from 1QFY23. The Indonesian facility will be operational in the next six months.
- Capex plan:** Capex planned for FY22E is pegged at ₹3.25bn to increase capacity and product portfolio, out of which ₹2.2bn capex has already been incurred in 9MFY22. Net debt at the end of 3QFY22 stood at ₹8.2bn vs ₹7.8bn at the end of 2QFY22.
- Working capital stood at ₹2.6bn at the end of 3QFY22 vs. ₹2.3bn at the end of 2QFY22.
- Management guidance:** Management expects Industrial segment demand to grow by 7-8%; Housing & Infra segment demand to grow at ~10-11%; whereas Mining segment is expected to grow by 6-7%. Size of the domestic explosives industry is estimated to be ~₹60-65bn.
- SIIL reported strong set of earnings for 3QFY22 driven by robust momentum in overseas & exports business. SIIL is confident of increasing revenue from defence to ₹2.75bn 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.

**Valuation:** Given upbeat 3QFY22 performance, optimistic management guidance and improving product mix (higher share of defense and overseas business) we have raised our estimates higher. At CMP the stock is trading at 33.1x its FY24 EPS, we revise our rating on the stock to an Out Performer, with a revised target price of ₹2,461 (earlier ₹2,667).

**Risks:** Foreign Currency impact and delay in defense sales.

## Results Summary 3QFY22

Y/E March (₹ mn)	3QFY22	3QFY21	YoY Growth	2QFY22	QoQ Growth
Revenue	10,179	6,459	57.6%	7,877	29.2%
EBITDA	1,780	1,322	34.6%	1,318	35.1%
Depreciation	272	244	11.6%	273	-0.2%
Other Income	71	132	-46.6%	110	-35.8%
PBT	1,444	1,102	31.1%	1,037	39.3%
Tax	394	287	37.0%	290	36.0%
PAT	1,051	814	29.0%	748	40.5%
Adjusted PAT	1,051	814	29.0%	748	40.5%
EBITDA Margin	17.5%	20.5%		16.7%	
Tax Incidence	27.3%	26.1%		27.9%	
Adj PAT Margin	10.3%	12.6%		9.5%	

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Served as an officer, director or employee	No

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