

Solar Industries India Ltd (SIIL)

BUY

Sector: Chemicals /Mid Cap | Earnings Update – 3QFY21

5 February 2021

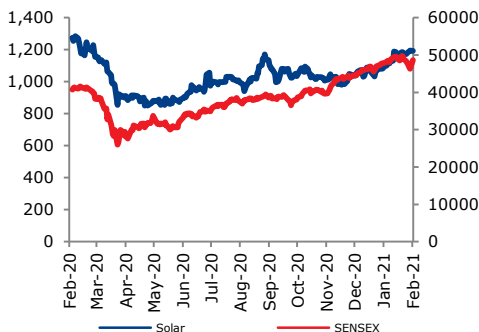
Background: Established in 1995, Solar Industries is the largest manufacturer of industrial explosives and explosive initiating systems in India and has the world's largest manufacturing facility for packaged explosives. With a licensed explosives capacity of over 290,000 MT/annum, the company has ~28% 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	50,772
Nifty	14,943
Price	₹1,221
Target Price (12 months)	₹1,405
Recommendation	BUY
52 Week High/Low	₹1,290/772
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	Dec 19	Sept 20	Dec 20
Promoters (%)	73.2	73.2	73.2
FII (%)	3.6	4.8	5.3
DII (%)	18.6	17.3	16.6
Others (%)	4.7	4.7	4.9
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2021	2022E	2023E
Revenue	23.5	28.4	34.4
EBITDA	4.9	6.0	7.3
PAT	2.5	3.3	4.0
EPS	27.7	35.9	44.6
% growth	-6.2	29.6	24.1
P/E	44.0	34.0	27.4
P/BV	6.8	5.9	4.9
EV/EBITDA	23.1	18.5	15.2
EV/Sales	4.8	3.9	3.2
Dividend Yield	0.7	0.7	0.0
ROE	16.4	18.7	19.5

Performance(%)	1M	3M	12M
SIIL	8.9%	18.6%	-7.4%
SENSEX	1.5%	22.7%	22.3%



Strong show driven by continued performance from overseas & exports business.

- During 3QFY21, net sales of Solar Industries India Limited (SIIL) went up by 14.7% YoY to ₹6.4bn; on account of strong business recovery across all geographies. Management has guided for 15%+ top line growth and improving margins.
- Top line growth was aided by 27% YoY growth each in Housing and Infra segments (₹1.7bn sales) and exports & overseas markets (₹2.8bn sales). Sales to Coal India (CIL) grew 9% YoY to ₹979mn, but was offset by 9% YoY decline in institutional (non-CIL miners) sales at ₹731mn. Sales of domestic explosives came in at ₹2.8bn due to flattish YoY explosive volume at 86,265MT while realization was up marginally by 0.3% at ₹32,304/MT. Defence segment's sales fell 11% YoY to ₹229mn due to deferment of deliveries by customers.
- Exports & overseas markets continued the growth momentum with highest ever quarterly sales at ₹2.8bn (43% of total sales), up 27% YoY. Sales were driven by increased off take in Ghana, Tanzania, South Africa and Turkey. In Tanzania, sales operations have commenced with project work expected to finish in Mar'21. In South Africa, the operations are scaling up and a breakeven is likely in 4QFY21. In Turkey, SIIL is the largest player and is eyeing opportunities from neighboring countries. In Australia, trading operations have started while production would start in next few months, post which it will take a year to attain breakeven. In line with its vision of becoming a major global player, SIIL aims to foray into Indonesia in FY22. SIIL expects its overseas sales to surpass ₹10bn in FY22E (excluding exports from India). Impact of currency translation losses was ₹110mn in 3QFY21 and ₹970mn for 9MFY21.
- Capex plan:** Management has decided to put up cartridge explosive plants at multiple locations. The amount of capex needs to be decided upon and will be shared in the coming quarter. The capital expenditure will be met through internal accrual with Net Debt to Equity 0.5-0.6x (current levels) not to be exceeded.

Valuation: The company reported strong set of earnings for 3QFY21 driven by sharp recovery in overseas & exports business, which achieved highest ever quarterly revenues (continuing its growth momentum). 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 ₹7.1bn in 2QFY21 to ₹9.7bn in 3QFY21, revenues from which are expected to begin from 4QFY21. Given upbeat 3QFY21 performance, optimistic management guidance and improving product mix (higher share of defense and overseas business) we further upgrade our rating on the stock from MARKET PERFORMER to BUY, with revised target price of ₹1,405 (earlier ₹1,104).

Risks: Foreign Currency impact and delay in defense sales.

Results Summary 3QFY21

Y/E March (₹ mn)	3QFY21	3QFY20	YoY Growth	2QFY21	QoQ Growth
Revenue	6,459	5,632	14.7%	5,873	10.0%
EBIDTA	1,322	1,133	16.7%	1,259	5.1%
Depreciation	244	220	10.6%	239	2.1%
Other Income	132	94	40.6%	19	607.5%
PBT	1,102	866	27.2%	922	19.5%
Tax	287	216	33.4%	246	16.8%
PAT	814	651	25.2%	676	20.4%
Adjusted PAT	814	651	25.2%	676	20.4%
EBIDTA Margin	20.5%	20.1%		21.4%	
Tax Incidence	26.1%	24.9%		26.7%	
Adj PAT Margin	12.6%	11.5%		11.5%	

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