

Solar Industries India Ltd (SIIL)

Sector: Chemicals /Mid Cap | Earnings Update – 4QFY22

OUT PERFORMER

8 May 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.

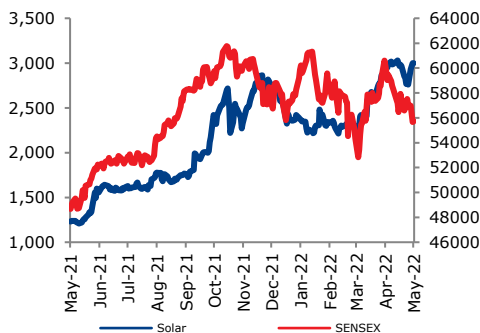
Sensex	55,702
Nifty	16,683
Price	₹2,999
Target Price (12 months)	₹3,209
Recommendation	OUT PERFORMER

52 Week High/Low	₹3,190/1,203
Bloomberg / Reuters	SOIL IN/SOIL.BO
Equity (shares in mn)	₹90.5
Mkt. Cap in bn	₹271.4/\$3.6
Avg. Daily Vol. ('000)	36.6
Avg. Daily Vol. (mn)	₹109.9/\$1.4

Shareholding	Mar 21	Dec 21	Mar 22
Promoters (%)	73.2	73.2	73.2
FII (%)	5.4	6.4	6.3
DII (%)	16.8	15.4	15.2
Others (%)	4.6	5.1	5.4
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2022	2023E	2024E
Revenue	39.5	46.5	56.3
EBITDA	7.5	8.9	10.9
PAT	4.4	5.4	6.6
EPS	48.8	59.4	72.5
% growth	59.4	21.7	22.1
P/E	61.5	50.5	41.4
P/BV	13.6	11.1	9.1
EV/EBITDA	36.6	30.7	25.0
EV/Sales	6.9	5.9	4.9
Dividend Yield	0.3	0.3	0.4
ROE	24.2	24.2	24.2

Performance(%)	1M	3M	12M
SIIL	2.3%	25.2%	139.9%
SENSEX	-3.9%	-4.3%	16.9%



Strong show; broad based growth momentum continues

- Solar Industries (SIIL) reported a strong performance on all fronts. The company's revenue/EBITDA/PAT grew by 66.4%/59.7%/84.7% YoY respectively for 4QFY22. Solar's revenue in 4QFY22 stood at ₹13.2bn (+66.4% YoY/29.4% QoQ) on account of broad-based growth across the verticals & improved realizations. The volumes & realizations grew by 11%/69% YoY respectively.
- EBITDA grew by 59.7% YoY/47.7% QoQ to ₹2.6bn while margin (20%) showed resilience despite cost inflation. The gross margin stood at 38% (-680bps YoY/-310bps QoQ) due to cost inflation. The sharp price rise in key raw material of ammonium nitrate dragged the margin lower. The high EBITDA margin & positive outlook despite the commodity inflation is highly noteworthy.
- Segment-wise performance-** Explosives volume/realizations rose by 11%/69% YoY. The overall explosives revenue saw a robust growth of 89% YoY to ₹7.9bn. The accessories revenues moderately grew by 5% YoY to ₹1.2bn. Defence & Non-CIL/Institutional sales registered a massive growth of 270% & 122% YoY to ₹722mn & ₹2bn. CIL, the largest revenue contributor (20%), grew by 89% YoY to ₹2.6bn. The housing & infra, exports & overseas and others segment too reported strong growth in the range of 30%-60%.
- Strong guidance-** The management remains optimistic of FY23 in conjecture to continuance in all-round growth & thus, guided for a revenue growth of 30% & EBITDA margin of 18%-20% for FY23. SIIL aims to expand its product portfolio & market presence on account of strategic investments incurred. The management presumes volume & realization growth of 15% each to propel the revenue growth for FY23. The defence & overseas markets pose robust outlook for FY23.
- Order book status-** SIIL has orderbook of ₹29.8bn as of FY22 end. The company has orders worth ~₹4.75bn from the defence sector while CIL/SCCL contributes ₹25bn. SIIL processed ~40% of the ₹4.1bn multi-mode hand grenade order (10lk pieces) with remaining 60% targeted to be completed in FY23.
- Debt & Capex Status-** SIIL has net debt of ₹7.8bn as of FY22 with net debt to EBITDA at 1x. SIIL plans to spend ₹4-4.5bn as capital expenditure in FY23. The company aims to spend 40% each on defence related products & enhancing capacities in India & rest 20% on the overseas market. The company is planning to scale the business operations in both domestic as well as international markets. The capacity expansion programs for the same are underway.

Valuation: SIIL's strong earnings momentum is expected to continue given the strong inherent growth catalysts of business moat, leadership position, rising opportunities in defence sector, geographical expansion & higher margin profile. SIIL's upbeat commentary justifies the high valuations. We maintain our OUTPERFORMER rating on the stock with a revised price target of ₹3,210 (earlier target: ₹2,461), valuing the company at 44x FY24EPS.

Risks: Foreign Currency impact and delay in defence sales.

Results Summary 4QFY22

Y/E March (INR mn)	4QFY22	4QFY21	YoY Growth	3QFY22	QoQ Growth
Revenue	13,169	7,914	66.4%	10,179	29.4%
EBITDA	2,628	1,646	59.7%	1,780	47.7%
Depreciation	296	225	31.5%	272	9.0%
Other Income	8	24	-68.4%	71	-89.1%
PBT	2,192	1,340	63.6%	1,444	51.7%
Tax	444	390	13.7%	394	12.7%
PAT	1,679	909	84.7%	1,021	64.5%
Adjusted PAT	1,679	909	84.7%	1,021	64.5%
EBITDA Margin	20.0%	20.8%		17.5%	
Tax Incidence	20.3%	29.1%		27.3%	
Adj PAT Margin	12.7%	11.5%		10.0%	

Kedar Kadam +91-44-40047361

kedarsk@chola.murugappa.com

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Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

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RESEARCH			
Kedar S Kadam	DGM & Head of Research	+91-44 - 4004 7361	kedarsk@chola.murugappa.com
Mugilan K	Technical Analyst	+91-44 - 4004 7353	mugilank@chola.murugappa.com
Nilesh Patil	Fundamental Analyst	+91-44 - 4004 7266	nileshmp@chola.murugappa.com
Ammar Haider	Associate	+91-44 - 4004 7360	amarh@chola.murugappa.com
Balaji H	Compliance Officer	044-30007226	balajih@chola.murugappa.com
Gayathri Devi	Customer service	1800 425 4477	gayathrids@chola.murugappa.com