

Solar Industries India Ltd (SIIL)

BUY

Sector: Chemicals /Small Cap | Earnings Update – 2QFY19

31 October 2018

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. Solar has manufacturing facilities spread across 25 locations and eight states in India. In recent years expanded its manufacturing base to Nigeria, Zambia, South Africa, Turkey, Ghana and Australia. SIIL has also interests in the coal mines (in Chattisgarh) through two JVs.

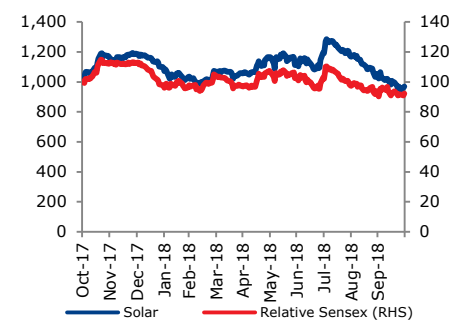
Sensex	34,442
Nifty	10,387
Price	INR 1003
Target Price (12 months)	INR 1179
Recommendation	BUY
52 Week High/Low	INR 1320/941
Bloomberg / Reuters	SOIL IN/SOIL.BO
Equity (shares in mn)	90.5
Mkt. Cap in bn	INR 90.7/ \$ 1.22
Avg. Daily Vol. ('000)	27.13
Avg. Daily Vol. (mn)	INR 27.2/\$0.4

Shareholding	Sep-17	Jun-18	Sep-18
Promoters (%)	73.15	73.15	73.15
FII (%)	1.62	1.33	1.33
DII (%)	20.27	20.19	20.18
Others (%)	4.96	5.33	5.34
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Revenue	19.2	23.8	29.6
EBITDA	4.1	5.0	6.3
Adj PAT	2.2	2.7	3.4
Adj EPS	24.4	29.3	38.0
% growth	18.9	20.4	29.6
PE	43.8	34.2	26.3
P/BV	8.9	7.1	6.0
EV/EBIDTA	25.4	19.2	15.2
EV/Sales	5.4	4.0	3.2
Div Yield (%)	0.6	0.5	0.6
ROE (%)	21.9	21.9	23.8

Performance %	1M	3M	12M
Solar Ind	-8.7	-18.8	-6.0
Sensex	-6.5	-9.6	1.9



Strong performance driven by Overseas & Infra Segment

- Net sales increased by 28% YoY to INR 5.2bn in 2QFY19, driven by robust performance in Overseas & Exports, and Infra segment. Revenue from exports & overseas segment (42% of total revenue) grew by 28% YoY to INR 2.2bn and Housing & Infra segment, led by government initiatives (20% of total revenue) grew by 23% YoY to INR 1.0bn. Revenues from Coal India Limited (16% of total revenue) grew 34% YoY to INR 838mn and defence sector (8% of total revenue) showed a massive growth of 438% YoY to INR 443mn. Revenues from explosives grew by 10% YoY to INR 2.2bn led by growth in prices of explosives by 9% YoY to INR 33,098/ton, while volume growth remained flat at 1% YoY to 67,529 MT.
- EBITDA grew by 23% YoY to INR 1.1bn. However EBITDA margin dropped marginally by 75 bps YoY to 21.3%, due to a translation forex loss of INR 57.8mn and increased commodity prices. PBT margins fell 122 bps YoY affected by increased finance costs and rise in overseas borrowing. PAT margins decreased slightly by 129 bps YoY to 10% due to higher tax rate at 34%.
- The total order book as of 1HFY19 totals to INR 15.3bn (CIL: INR 7.3bn, SCCL: INR 3.3bn & Defence: INR 4.7bn). Management reiterated on its top line and bottom line growth guidance of 25% YoY and gave a target of 360,000 MT with regard to the domestic volume of explosives.
- The management guided for an overall capex plan amounting to INR 3bn for FY19 in order to set up manufacturing facilities in Australia and Ghana, which are expected to start production by FY20. Out of the guided capex, INR 1.45bn has already been incurred as of 1HFY19 (domestic - INR 710mn; defence - INR 310mn; and overseas - INR 430mn). The management has plans to have production capacity spread across 10 different countries globally by end of FY20.

Valuation: Strong order book, overseas expansion, anticipation of higher coal production and revival in mining activity and overburden removal post monsoon coupled with demand from infrastructure segment will be the key growth drivers going forward. At current levels, the stock trades at P/E of 26.3x its FY20E; we rate the stock as BUY, assigning P/E of 31x to FY20E EPS to arrive at a target price of INR 1179. **Risks:** Political risk at overseas facilities, spike in prices of ammonium nitrate are amongst the key concerns.

Results Summary 2QFY19 (Consolidated)

Y/E March (INR mn)	2QFY19	2QFY18	YoY Growth	1QFY19	QoQ Growth
Revenue	5208.6	4084.0	27.5%	6147.2	-15.3%
EBIDTA	1110.6	904.7	22.8%	1358.8	-18.3%
Depreciation	151.4	127.6	18.7%	139.7	8.4%
Other Income	37.6	32.5	15.7%	76.6	-50.9%
PBT	832.4	698.5	19.2%	1099.9	-24.3%
Tax	282.6	216.0	30.8%	370.7	-23.8%
PAT	549.8	482.5	13.9%	729.2	-24.6%
Adjusted PAT*	519.4	457.4	13.6%	695.7	-25.3%
EBIDTA Margin (%)	21.3	22.2		22.1	
Tax Incidence (%)	34.0	30.9		33.7	
Adj PAT Margin (%)	10.0	11.2		11.3	

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