

Solar Industries India Ltd (SIIL)

MARKET PERFORMER

Sector: Chemicals /Mid Cap | Earnings Update – 4QFY21

3 June 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	52,073
Nifty	15,644
Price	₹1,590
Target Price (12 months)	₹1,678
Recommendation	MARKET PERFORMER

52 Week High/Low	₹1,645/870
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	Mar 20	Dec 20	Mar 21
Promoters (%)	73.2	73.2	73.2
FII (%)	4.0	5.4	5.4
DII (%)	18.2	16.7	16.6
Others (%)	4.6	4.9	4.6
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)	2021	2022E	2033E
Y/E March			
Revenue	25.2	29.4	35.2
EBITDA	5.1	6.1	7.5
PAT	2.8	3.5	4.3
EPS	30.6	39.1	48.0
% growth	3.5	27.7	22.7
P/E	52.0	40.7	33.2
P/BV	8.8	7.5	6.1
EV/EBITDA	28.5	23.3	19.3
EV/Sales	5.8	4.9	4.1
Dividend Yield	0.5	0.6	0.0
ROE	18.0	19.9	20.3

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

Strong show driven by upbeat performance across verticals though defense disappoints

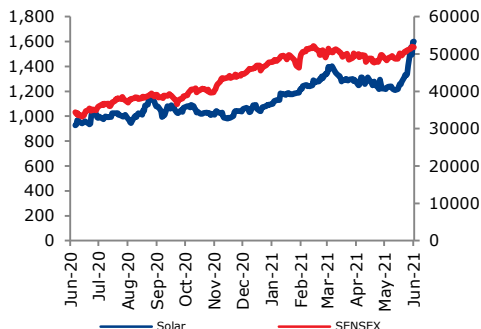
- During 4QFY21, net sales of Solar Industries India Limited (SIIL) went up by 44.6% YoY to ₹7.9bn; led by an all-round performance Coal (+30.2% YoY), Housing & Infra (+50.0% YoY) Exports segments (+3.8% YoY) and others (+61% YoY), the only blip being defence which witnessed a decline of (26.2% YoY).
- Gross margins contracted ~ 105 bps YoY & 73 bps QoQ on account of higher input costs. Nonetheless, positive operating leverage aided EBITDA margins which came in at 20.8% vs. 16.4% YoY & 20.5% QoQ. Solar posted an EBITDA of ₹1.6bn, up 83.4% YoY & 24% QoQ.
- Segment wise performance:** Explosives volume increased by 13% while realisations jumped by 25%, as a result, overall explosives segment revenue leaped 42% YoY to ₹4.2bn. Accessories segment registered an improvement of 52% YoY to ₹1.1bn. Defence segment revenue came in at ₹1.9bn, down 26% YoY; the segment struggled as there were some disruptions with respect to new order processing and execution of existing ones owing to Covid-19.
- The turnaround in Overseas business continues, wherein revenue & margins; went up by up ~31% each YoY. The turnaround in Turkey business aided revenues and margins. Ghana operations have reached breakeven, while Australian operations will soon start contributing meaningfully. SIIL has started two new operations in Burkina Faso and Albania, which will contribute significantly from ~3QFY22. There has been impairment loss on financial assets of ₹342.5mn in consolidated operations for FY21 (including receivables write down of ₹163.2mn seen in standalone operations). Also an additional ₹108mn has been spent on increasing stake in subsidiaries in FY21.
- Capex plan:** Management has decided to increase its packaged explosives manufacturing capacity. SIIL is expected to come up with a plant in southern and extreme northern region thereby improving its geographical reach and capacity. The capital expenditure will be met through internal accrual with Net Debt to Equity 0.5-0.6x (current levels) not to be exceeded. For FY22E, SIIL has guided for a capex of ₹3.2bn.

Valuation: SIIL reported strong set of earnings for 4QFY21 driven by sharp recovery in overseas & exports business, which achieved highest ever quarterly revenues (continuing its growth momentum). Solar has registered a strong performance for FY21 which reflects the company's resilience in difficult times. The only drag in performance has been the sluggish defence segment, which we believe is poised for a turnaround post the Multi-mode hand grenade order wins. Strong order book, turnaround in defence segment coupled with foreign subsidiaries reaching breakeven is expected augur well for Solar Industries in FY22. Given upbeat 4QFY21 performance, optimistic management guidance and improving product mix (higher share of defence and overseas business) we revise our rating on the stock from Buy to Market Performer, with revised target price of ₹1,678 (earlier ₹1,405).

Risks: Foreign Currency impact and delay in defence sales.

Results Summary 4QFY21

Y/E March (₹ mn)	4QFY21	4QFY20	YoY Growth	3QFY21	QoQ Growth
Revenue	7,914	5,475	44.6%	6,459	22.5%
EBIDTA	1,646	897	83.4%	1,322	24.4%
Depreciation	225	221	1.8%	244	-7.5%
Other Income	24	199	-87.7%	132	-81.6%
PBT	1,340	730	83.5%	1,102	21.6%
Tax	390	198	97.0%	287	35.8%
PAT	949	532	78.5%	814	16.6%
Adjusted PAT	949	532	78.5%	814	16.6%
EBIDTA Margin	20.8%	16.4%		20.5%	
Tax Incidence	29.1%	27.2%		26.1%	
Adj PAT Margin	12.0%	9.7%		12.6%	



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