

Rating matrix	
Rating	: Hold
Target	: ₹ 1045
Target Period	: 12 months
Potential Upside	: 5%

What's changed?	
Target	Changed from ₹ 1030 to ₹ 1045
EPS FY20E	Changed from ₹ 34.4 to ₹ 33.3
EPS FY21E	Introduced at ₹ 38.7
Rating	Unchanged

Quarterly performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	653.0	465.7	40.2	520.9	25.4
EBITDA	121.5	104.3	16.4	107.3	13.2
EBITDA (%)	18.6	22.4	-380 bps	20.6	-200 bps
PAT	68.6	54.2	26.6	52.0	32.0

Key financials				
(YoY Growth)	FY18	FY19E	FY20E	FY21E
Revenue	1916	2374	2883	3309
EBITDA	412	511	597	685
Net Profit	221	263	301	351
EPS (₹)	24.4	29.0	33.3	38.7

Valuation summary				
	FY18	FY19E	FY20E	FY21E
P/E	41.0	34.5	30.0	25.8
Target P/E	42.9	36.0	31.4	27.0
EV / EBITDA	22.9	18.6	15.9	14.0
P/BV	8.3	7.6	7.6	6.8
RoNW	20.3	22.0	25.2	26.3
RoCE	22.0	24.4	28.8	29.4

Stock data	
Stock Data	
Market Capitalization	₹ 9049 Crore
Debt (FY19E)	₹ 540 Crore
Cash and Investments (FY19E)	₹ 77.7 Crore
EV (FY19E)	₹ 9511.3 Crore
52 week H/L (BSE)	941 / 1320
Equity capital	₹ 18.1 Crore
Face value	₹ 2

Price performance				
Return %	1M	3M	6M	12M
Solar Industries	-7.4	0.6	-15.6	-5.7
Premier Explosives	(1.1)	27.4	(12.6)	(44.0)
Keltech Energies	(13.6)	(17.0)	(25.5)	(50.8)

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Solar Industries (SOLIN)

₹ 1000

Strong growth, margin dent in Q3...

- Solar Industries (SIL) reported strong Q3FY19 numbers, albeit with lower margins. Revenues came in at ₹ 653 crore, up 40.2% YoY (our estimates ₹ 550 crore). All segments of the business reported strong growth for the quarter
- Industrial explosives segment (54.1% of topline) reported growth of 43% YoY. Overseas and exports segment (37% of topline) grew 42.3% YoY to ₹ 239 crore. Revenues from the defence segment were at ₹ 41 crore for the quarter (₹ 10 crore in Q3FY18). Defence order book is now at ₹ 430 crore
- SIL witnessed a gross margin contraction of 250 bps YoY. Employee expenses also grew 29% YoY. Other expenses also grew 58.3% YoY. Thus, EBITDA margins came in at 18.6% vs. 22.4% YoY. Absolute EBITDA increased 16.4% YoY to ₹ 121.5 crore

Healthy overseas performance continues, debt increases

The overseas segment reported yet another quarter of strong performance with stellar performance coming from all geographies like Nigeria, Turkey, Zambia and South Africa in 9MFY19. In the next two to three years, SIL is planning to expand its overseas operation in 10 geographies. Thus, we expect this segment to grow at ~24% CAGR in FY18-21E to ₹ 1083.7 crore. The initiating systems segment is expected to grow at 18% CAGR in FY18-20E to ₹ 275 crore. Total debt for SIL increased from ₹ 481 crore in FY18 to ₹ 579 crore in 9MFY19 (D:E 0.5x). The management intends to bring down the D:E to 0.4x in FY20-21E.

Strong growth in industrial explosives (IE); defence execution picks up

The IE segment grew tepidly in H1FY19 (volume growth of 1% and 5% in Q2FY19 and H1FY19, respectively) due to weak offtake in the bulk explosives segment, which, in turn, was due to lower overburden removal. However, Q3FY19 saw a strong pick-up with 14.6% volume growth and 25% realisation growth. Going forward, the management commentary suggests this segment will pick up due to increased offtake from its key clients like Coal India and SCCL. Packaged (cartridge) explosives are also likely to continue their accelerated trajectory with strong demand from infrastructure and mining customers. Defence execution has materially picked up with 9MFY19 revenues at ₹ 113 crore. The management has guided for ₹ 170 and ₹ 400 crore of revenues in FY19E and FY20E, respectively. The order book in this space is healthy at ₹ 430 crore. SIL has orders for high energy materials, ammunitions, propellants, rockets, propulsion systems and warheads.

Strong capex, on strong earnings trajectory

SIL is executing a heavy capex of ₹ 270 crore in FY19 (₹ 201 crore already spent in 9MFY19). It has lined up similar capex (~₹ 300 crore) over FY20E-21E. Going forward, we expect SIL's key segments – industrial explosives, overseas and exports segment to grow at ~15% and ~20%, respectively, in FY18-21E. We expect defence revenues of ~₹ 160 crore and ₹ 340 crore in FY19E and FY20E, respectively. Accordingly, we expect SIL to post healthy revenue, EBITDA and PAT CAGR of 20%, 18.5% and 16.7%, respectively, in FY18-21E. We value the company at 27x FY21E EPS of ₹ 38.7 to arrive at a target price of ₹ 1045. We maintain **HOLD** rating on the company.

Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Total Revenues	653.0	550.0	465.7	40.2	520.9	25.4	Strong revenue growth of 40.2% YoY due to strong growth across segments
Raw materials costs	374.9	297.0	255.7	46.6	280.7	33.5	SIL witnessed gross margin contraction of 250 bps YoY due to higher prices of key raw material - ammonium nitrate
Employees Cost	46.6	39.6	36.1	29.0	43.3	7.6	
Other Expenses	110.1	90.7	69.6	58.3	89.5	23.0	Other expenses grew 58.3% YoY due to ₹ 7.5 crore credit loss in the standalone entity and forex loss of ₹ 2.5 crore due to currency devaluation in overseas subsidiary.
Total Expenditure	531.6	427.3	361.4	47.1	413.6	28.5	
EBITDA	121.5	122.6	104.3	16.4	107.3	13.2	
EBITDA margins (%)	18.6	22.3	22.4	-380 bps	20.6	-200 bps	
Depreciation	15.0	14.5	13.7	9.1	15.1	-1.2	
EBIT	106.5	108.1	90.6	17.5	92.2	15.5	
Interest	14.6	12.5	10.6	37.6	12.7	15.5	
Other Income	3.4	4.0	2.6	29.4	3.8	-9.8	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	0.0	
PBT	95.2	99.7	82.6	15.3	83.3	14.4	
Total Tax	21.6	31.9	24.9	-13.4	28.3	-23.7	
PAT(after MI)	68.6	63.8	54.2	26.6	52.0	32.0	

Key Metrics	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Ind. explosives volume (MT)	95719	83537	14.6	67529	41.7
Realisation (₹/MT)	36920	29591	24.8	33098	11.5
Value (₹ crore)	353.4	247	43.0	224	58.1
Initiating Systems (₹ crore)	63	51	23.4	56	12.4
Exports & Overseas (₹ crore)	239	168	42.3	220	9.0
Defence (₹ crore)	41	10	314.1	44	-6.8

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY17 Actual	FY18 Actual	FY19E Old	New	% Change	FY20E Old	New	% Change	FY21E New
Revenue	1,580.0	1,916.1	2,339.4	2,374.5	1.5	2,962.2	2,882.7	-2.7	3,309.5
EBITDA	323.9	411.6	467.9	510.5	9.1	613.2	596.7	-2.7	685.1
EBITDA Margin (%)	20.5	21.5	20.0	21.5	150 bps	20.7	20.7	0 bps	20.7
PAT	186.5	220.6	248.1	262.6	5.9	311.1	301.3	-3.2	350.5
EPS (₹)	20.6	24.4	27.4	29.0	5.9	34.4	33.3	-3.2	38.7

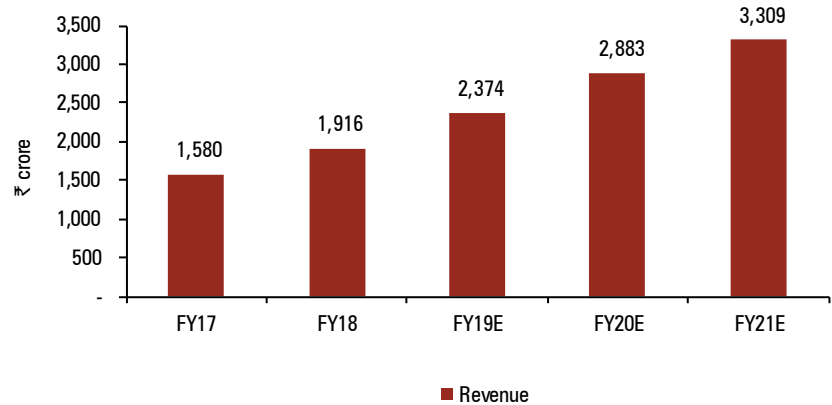
Source: Company, ICICI Direct Research

Company Analysis

Revenue trend over FY18-21E

We expect consolidated revenues to grow at 20% in FY18-21E mainly on the back of strong growth in the overseas operations, exports, recovering domestic business and improved visibility in defence business.

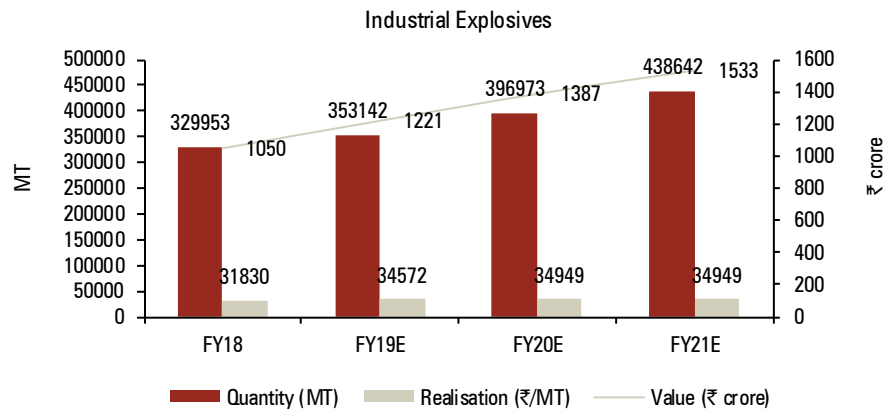
Exhibit 1: Revenue trend



Source: Company, ICICI Direct Research

Industrial explosives segment is likely to perform well on the back of strong growth in cartridge segment. The bulk segment, however, is likely to remain muted, going forward.

Exhibit 2: Industrial explosives growth trend



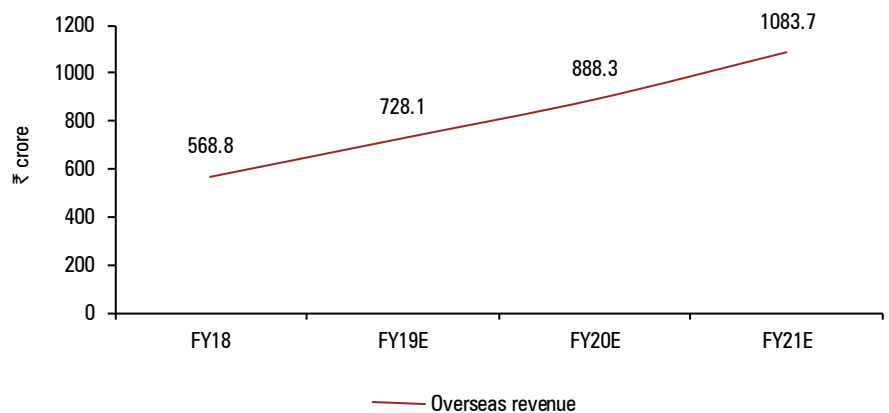
Source: Company, ICICI Direct Research

Robust overseas, exports in FY18-21E, defence to pick up from FY19E

In the overseas markets, the company currently has manufacturing facilities in four countries – Turkey, Zambia, Nigeria and South Africa. SIL is aiming to expand this further by increasing its manufacturing facilities in ten countries by 2021. Zambia is a key area for copper mining in the world. Accordingly, SIL set up a manufacturing facility of bulk and packaged explosives in 2010 and 2013, respectively. SIL also started exporting to neighbouring countries from Zambia. In Nigeria, the company has emerged as a leading supplier of explosives for local construction and infrastructure players. In Turkey, the company forayed in 2011, to start distributing explosives. Subsequently, it set up the manufacturing facility in 2013.

Currently, SIL is one of the largest industrial explosives manufacturers in Turkey. In South Africa, SIL set up a bulk explosives plant, which started commercial production in Q2FY18. With this manufacturing facility, SIL expects to penetrate the South African market and strengthen its presence in Africa. South Africa is also likely to become second largest revenue contributor post Turkey. SIL continues to creep up ownership across foreign subsidiaries with 100% stake acquired in Turkey in FY18. New overseas investments include expansion of bulk capacity (from 25,000 tonnes to 50,000 tonnes) and setting up of cartridge plant of 5 million tonne detonator capacity in South Africa. Capex plans also include bulk capacity of 6,000 tonnes and 12,000 tonnes in Ghana and Australia, respectively. The overseas business is likely to see significant growth, going forward. Accordingly, we pencil in ~24% CAGR in FY18-21E. We expect revenues of ₹ 1083 crore from only the overseas segment by FY21E.

Exhibit 3: Overseas segment (revenue) trend

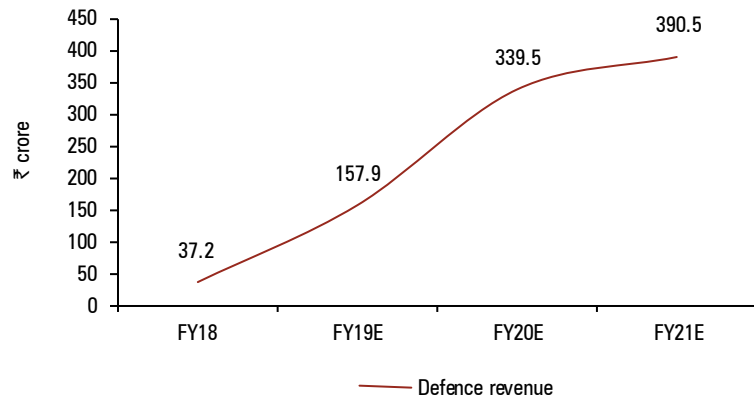


Source: Company, ICICI Direct Research

Defence business: Execution visibility from FY19E onwards

SIL has witnessed a significant improvement in order inflows from the defence segment starting from FY17. The order book in this segment is now at ₹ 430 crore. SIL had already executed capex of over ₹ 450 crore in this segment for setting up a production capacity for HMX, propellants, and others. Going ahead, the company is additionally planning to spend ~₹ 50-100 crore in FY20E-21E to increase further capacity and build newer capacities. The management is confident of strong performance in this segment going forward.

Exhibit 4: Defence segment (revenue) trend

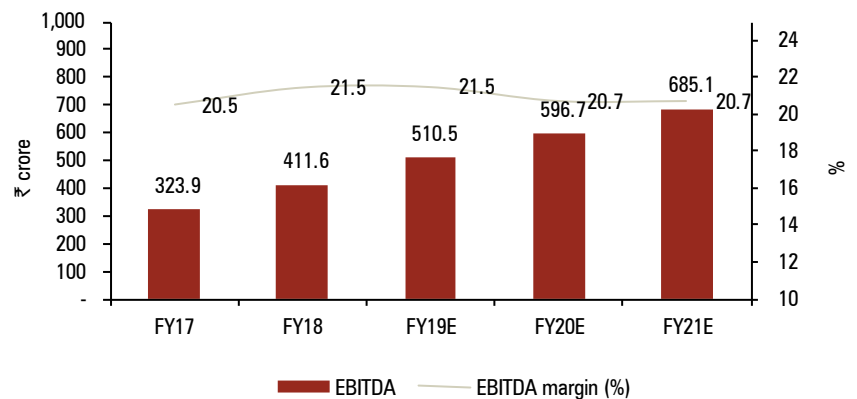


Source: Company, ICICI Direct Research

SIL is also planning to foray into manufacturing bi-modular-charge systems (BMCS) for artillery guns. BMCS is a crucial component required to propel the shell out of the barrel. This was so far imported, mainly from France. In the last year, around 10 lakh modules were imported. BMCS can increase the rate of firing, especially for a gun like Bofors. Ordnance Factory Board's (OFB) plans to have a dedicated factory for making BMCS could not take off after being conceived 15 years ago. The government now plans to open this area to private players. SIL has necessary licenses in this segment and has also bid in a tender recently.

EBIDTA margins to remain stable at 20.7% in FY21E

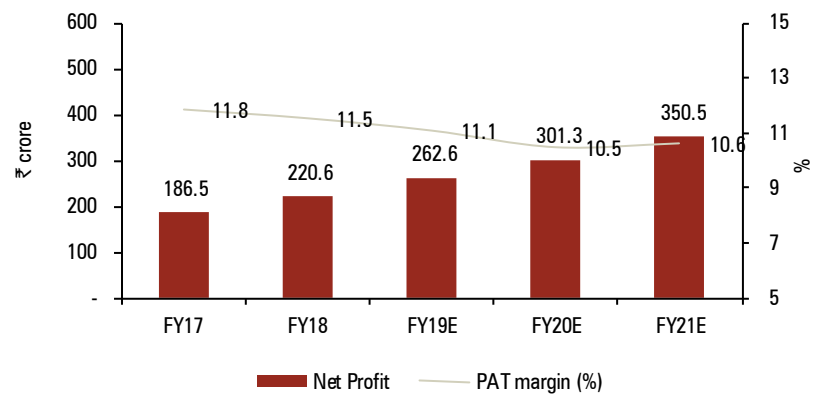
Exhibit 5: Consolidated EBITDA trend



Source: Company, ICICI Direct Research

PAT (consolidated) to grow at 16.7% CAGR in FY18-21E

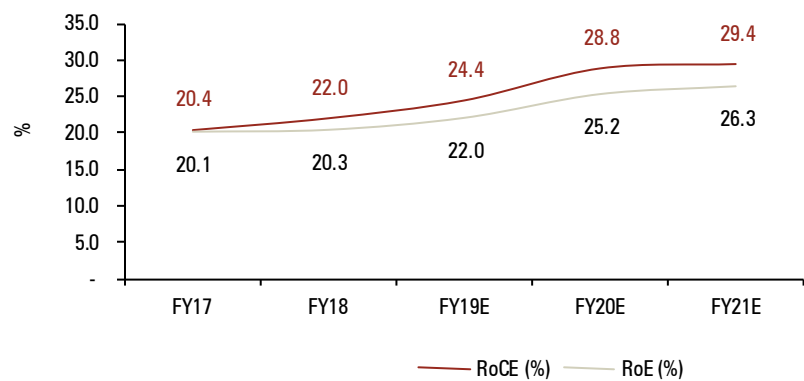
Exhibit 6: Consolidated PAT trend



Source: Company, ICICI Direct Research

RoE, RoCE trend

Exhibit 7: RoE, RoCE trend



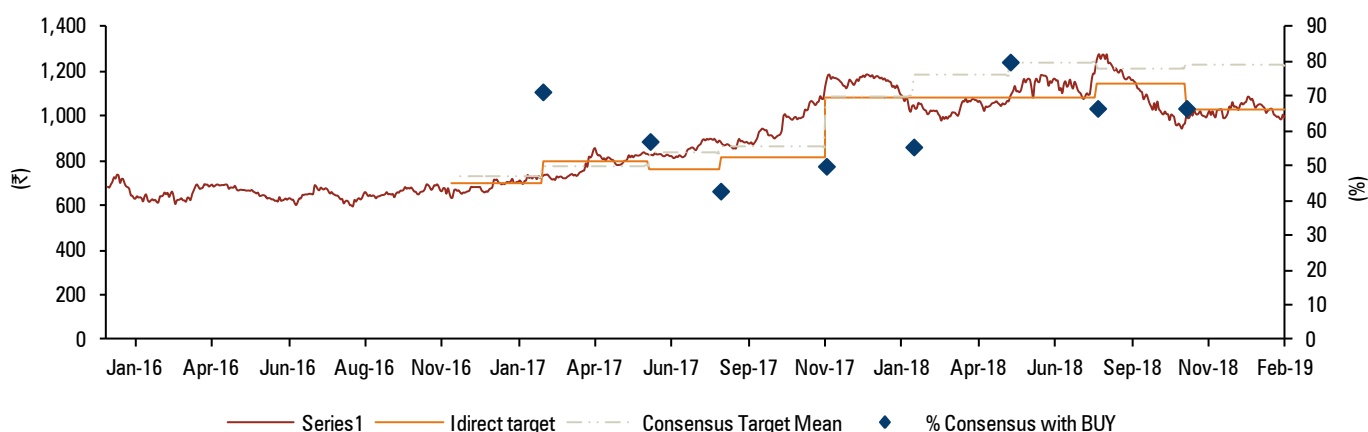
Source: Company, ICICI Direct Research

Outlook and valuation

SIL possesses a wide moat in the explosives segment in the form of industry leadership, significant entry barriers, optimal product mix and carefully pre-planned capacity additions and is set to benefit the most from a revival in mining & infrastructure activity. Even in the export & overseas business, we believe SIL has been the first mover in terms of building capacity in markets like Turkey, Nigeria, Zambia and South Africa. New business segments like defence business are also likely to provide support to SIL's business model at a time when the government's prerogative is to indigenise defence manufacturing. We believe the same will aid SIL to scale its nascent defence business at a more rapid pace.

SIL is executing a heavy capex of ₹ 270 crore in FY19 (₹ 201 crore already spent in 9MFY19). It has lined up similar capex (~₹ 300 crore) over FY20E-21E. Going forward, we expect SIL's key segments – industrial explosives, overseas and exports segment to grow at ~15% and ~20% respectively, in FY18-21E. We expect defence revenues of ~₹ 160 crore and ₹ 340 crore in FY19E and FY20E respectively. Accordingly, we expect SIL to post healthy revenue, EBITDA and PAT CAGR of 20%, 18.5% and 16.7%, respectively, in FY18-21E. We value the company at 27x FY21E EPS of ₹ 38.7 to arrive at a target price of ₹ 1045. We maintain **HOLD** rating on the company.

Recommendation history vs. consensus



Source: Bloomberg, Company, ICICI Direct Research, Initiated coverage on January 9, 2015

Key events

Date/Year	Event
2012	SIL's market share increases from 24% to 27% & the domestic production grows by 24%
2013	Commences commercial production of ANFO in Turkey
2013	Expands operations in Zambia by introducing cartridges in the market
2014	Foray into defence business by setting up manufacturing facilities of HMX & propellant
2014	Starts new bulk explosive facility in Kothagudem
2015	SIL acquires two companies M/s Blastec (India) Private Ltd & M/s Emul Tek Private Ltd
2015	SIL plans to foray into manufacturing of bi-modular charge systems (BMCS)

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position	Position Change
1	Nuwal (Manish Satyanarayan)	07-01-2019	27.88%	25.23M	+8.57M
2	Nuwal (Kailashchandra Nandlalji)	08-01-2019	23.08%	20.88M	+3.14M
3	Nuwal (Satyanarayan Nandlal)	07-01-2019	14.63%	13.24M	-7.10M
4	HDFC Asset Management Co., Ltd.	31-12-2018	7.01%	6.34M	-0.07M
5	Nuwal (Indiradevi Kailashchandra)	31-12-2018	6.15%	5.57M	0
6	SBI Funds Management Pvt. Ltd.	31-12-2018	4.67%	4.22M	+0.00M
7	Kotak Mahindra Asset Management Company Ltd.	31-12-2018	3.03%	2.75M	+0.14M
8	ICICI Prudential Life Insurance Company Ltd.	31-12-2018	2.11%	1.91M	-0.12M
9	DSP Investment Managers Pvt. Ltd.	31-12-2018	1.83%	1.65M	+0.00M
10	Nuwal (Seema Manish)	31-12-2018	1.37%	1.24M	0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	73.2	73.2	73.2	73.2	73.2
FII	1.7	1.5	1.3	1.3	2.0
DII	20.0	20.1	20.3	20.3	19.6
Others	5.1	5.3	5.3	5.3	5.3

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Nuwal (Manish Satyanarayan)	121M	+8.57M	Nuwal (Satyanarayan Nandlal)	-100.78M	-7.10M
Nuwal (Kailashchandra Nandlalji)	+44.60M	+3.14M	Nuwal (Leeladevi Satyanarayan)	-79.43M	-5.08M
Kotak Mahindra Asset Management Company Ltd.	+2.24M	+0.14M	Nuwal (Sohandevi Nandlal)	-72.76M	-4.65M
Fidelity Management & Research Company	+0.32M	+0.02M	Nuwal (Kailashchandra) HUF	-35.54M	-2.51M
Aditya Birla Sun Life AMC Limited	+0.22M	+0.01M	Nuwal (Satyanarayan) HUF	-38.65M	-2.47M

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement (₹ crore)				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Revenue	1,916	2,374	2,883	3,309
Growth YoY (%)		23.9	21.4	14.8
Raw Material Expenses	1,064	1,306	1,652	1,896
Gross Margins	55.5	55.0	57.3	57.3
Employee Expenses	133	185	231	265
Other Expenses	308	373	404	463
Total Operating Expenditure	1,505	1,864	2,286	2,624
Operating Profit (EBITDA)	412	511	597	685
Growth YoY (%)		24.0	16.9	14.8
Interest	33	50	60	60
Other Income	12	19	27	30
PBDT	391	479	563	655
Depreciation	51	59	69	80
PBT after Exceptional Items	340	420	494	575
Total Tax	106	141	166	194
PAT before MI	234	279	327	381
Minority Interest	13	17	26	30
PAT	221	263	301	351
Growth YoY (%)		19.1	14.7	16.4
EPS	24.4	29.0	33.3	38.7

Source: Company, ICICI Direct Research

Cash flow statement (₹ crore)				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	220.6	262.6	301.3	350.5
Add: Depreciation	51.3	59.0	69.0	80.1
Add: Interest Paid	32.7	50.4	60.3	60.3
Cash Flow before WC changes	304.6	372.0	430.6	490.9
(Increase)/Decrease in inventory	(51.4)	(47.3)	(44.1)	(47.9)
(Increase)/Decrease in debtors	(44.5)	(78.8)	(86.8)	(78.3)
(Increase)/Decrease Loans & Advance	14.1	(2.8)	(3.1)	(2.6)
(Increase)/Decrease in CA	(15.9)	7.8	(5.6)	5.9
Net Increase in Current Assets	(56.9)	(121.1)	(139.5)	(123.0)
Net Increase in Current Liabilities	75.9	75.4	107.4	76.2
Net CF from operating activities	323.6	326.3	398.4	444.1
(Purchase)/Sale of Fixed Assets	(213.2)	(275.0)	(275.0)	(250.0)
Inc / (Dec) in Deferred Tax Liability	17.1	-	(26.1)	(25.0)
Net CF from Investing Activities	(173.3)	(268.2)	(262.5)	(238.1)
Proceeds/(Repay) Secured Loan	48.2	53.9	25.0	5.0
Proceeds/(Repay) Unsecured Loan	(31.2)	60.2	60.0	(5.0)
(Payment) of DDT	(65.6)	(76.3)	(87.2)	(87.2)
Interest Paid	(32.7)	(50.4)	(60.3)	(60.3)
Net CF from Financing Activities	(81.4)	(87.6)	(137.5)	(222.5)
Net Cash flow	68.9	(29.5)	(1.6)	(16.5)
Cash and Cash Eq. (beginning)	38.3	107.2	77.7	76.1
Cash and Cash Equivalent (end)	107.2	77.7	76.1	59.6

Source: Company, ICICI Direct Research

Balance sheet (₹ crore)				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Equity Capital	18.1	18.1	18.1	18.1
Reserve and Surplus	1,065.8	1,176.8	1,315.9	1,504.3
Total Shareholders funds	1,083.9	1,194.9	1,334.0	1,522.4
Secured Loan	196.1	250.0	275.0	280.0
Unsecured Loan	229.8	290.0	350.0	345.0
Total Debt	425.9	540.0	625.0	625.0
Deferred Tax Liability	101.1	101.1	75.0	50.0
Minority Interest	47.4	49.9	53.4	55.3
Total Liabilities	1,692	1,927	2,163	2,363
Gross Block	1,164.3	1,466.2	1,751.2	2,001.2
Accumulated Depreciation	238.6	303.2	381.9	472.3
Net Block	925.7	1,163.0	1,369.3	1,528.9
Capital WIP	96.8	70.0	60.0	60.0
Total Fixed Assets	1,022.5	1,233.0	1,429.3	1,588.9
Inventory	232.4	279.7	323.8	371.7
Debtors	363.6	442.4	529.2	607.5
Loans and Advances	11.7	14.5	17.6	20.2
Other Current Assets	74.3	66.5	72.1	66.2
Cash	69.5	77.7	76.1	59.6
Total Current Assets	818.9	948.2	1,086.2	1,192.7
Creditors	127.2	162.6	205.3	235.7
Provisions	139.0	178.9	223.8	254.6
Total Current Liabilities	341.4	416.8	524.2	600.3
Net Current Assets	477.5	531.5	562.0	592.4
Total Assets	1,692	1,927	2,163	2,363

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per Share Data				
Reported EPS	24.4	29.0	33.3	38.7
Cash EPS	30.0	35.5	40.9	47.6
BV per share	119.8	132.0	132.0	147.4
Dividend per share	6.0	7.0	7.0	8.0
Cash Per Share	26.4	33.5	33.5	42.2
Operating Ratios (%)				
EBITDA Margin	21.5	21.5	20.7	20.7
EBIT / Net Sales	18.8	19.0	18.3	18.3
PAT / Net Sales	11.5	11.1	10.5	10.6
Inventory days	44.3	43.0	35.4	35.7
Debtor days	69.3	68.0	56.0	58.4
Creditor days	24.2	25.0	20.6	22.6
Return Ratios (%)				
RoE	20.3	22.0	25.2	26.3
RoCE	22.0	24.4	28.8	29.4
RoIC	28.5	29.1	34.1	33.8
Valuation Ratios (x)				
P/E	41.0	34.5	30.0	25.8
EV / EBITDA	22.9	18.6	15.9	14.0
EV / Net Sales	4.9	4.0	3.3	2.9
Market Cap / Sales	4.7	3.8	3.1	2.7
Price to Book Value	8.3	7.6	7.6	6.8
Solvency Ratios				
Debt / EBITDA	1.0	1.1	0.9	0.9
Debt / Equity	0.4	0.5	0.5	0.5
Current Ratio	2.0	1.9	1.9	1.8
Quick Ratio	1.3	1.3	1.3	1.2

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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