

Profitable growth performance remains priced in...

Solar Industries (SIL) reported steady Q4FY19 numbers. Revenue was at ₹ 672.9 crore, up 17.0% YoY led by industrial explosive and defence segment. In Q4FY19, the industrial explosives space recorded robust volume growth of 9.6% YoY while realisation increased 5.4% YoY. Overall, industrial explosives segment for the quarter grew 15.5% YoY. EBITDA came in ₹ 142.3 crore, up 20.4% YoY aided by a decline in other expenses. However, margins were slightly impacted by ~140 bps increase in input costs. Accordingly, PAT grew only 8.6% YoY to ₹ 71.6 crore.

Explosives, defence continues to clock solid performance

In FY19, topline in industrial explosives space grew 21.2% YoY to ₹ 1273 crore. Volumes grew 8.8% YoY while realisations grew robustly by 11.3% YoY. Going ahead, 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 FY19 revenues at ₹ 170 crore. The management has guided for ₹ 300 crore of revenues in FY20E. The order book in this space remains healthy at ₹ 396 crore.

Overseas & exports sees some hiccup; long term healthy

Overseas & exports segment reported a decline of 16.0% YoY, after many quarters of strong performance due to localised factors in its key geographies. Extended snowfall, local municipal elections impacted the Turkey market while SIL remained cautious in Zambia due to local economic scenarios resulting in reduced output. Demand from other geographies such as Nigeria remained steady. The company began operations in South Africa, while, SIL expects to begin operations in Ghana, Australia in FY20E. Over FY19-21E, we expect overseas & exports, initiating segments to grow at 12.5% and 13% CAGR, respectively, to record a topline of ₹ 1096.4 crore and ₹ 328 crore, respectively.

Valuation & Outlook

Going ahead, SIL's key segments i.e. industrial explosives, overseas and exports to clock CAGR of 11.5% and 12.5%, respectively, in FY19-21E. We expect the defence space to record growth of 38% CAGR to ₹ 323 crore FY21E. SIL executed a significant capex of ₹ 270 crore in FY19. In addition, it has also lined up a similar capex (~₹ 265 crore) in FY20E for expansion purposes. Overall, SIL is expected to post healthy revenue, EBITDA and PAT CAGR of 14.3%, 16.8% and 14.0%, respectively, in FY19-21E. We value the company at 28x FY21E EPS of ₹ 38.4 to arrive at a target price of ₹ 1075. We maintain **HOLD** rating on the company.



Particulars	
Stock Data	Amount
Market Capitalization	₹ 9546.7 Crore
Debt (FY19)	₹ 469.1 Crore
Cash and Inv (FY19)	₹ 91.8 Crore
EV (FY19)	₹ 9924 Crore
52 week H/L (BSE)	1320 / 924
Equity capital	₹ 18.1 Crore
Face value	₹ 2

Key Highlights

- Expect FY20E revenue growth at > 20% YoY
- Volume growth in the explosive segment expected at ~15% YoY. Realisation to remain largely flat
- Going forward, growth to be driven across segments, especially, by overseas & exports and a pick-up in defence space
- Maintain HOLD rating on the stock with a target price of ₹ 1075

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Key Financial Summary

	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenue	1,580.0	1,916.1	2,461.6	2,857.6	3,215.0	14.3
EBITDA	323.9	411.6	501.9	603.0	684.8	16.8
EBITDA margin (%)	20.5	21.5	20.4	21.1	21.3	
Net Profit	186.5	220.6	267.7	303.8	347.6	14.0
EPS (₹)	20.6	24.4	29.6	33.6	38.4	
P/E (x)	50.0	42.3	34.8	30.7	26.8	
EV/EBITDA (x)	29.9	23.5	19.3	16.1	14.4	
RoCE (%)	20.4	21.8	23.8	29.0	29.2	
RoE (%)	20.1	20.3	21.6	24.5	25.9	

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Total Revenues	673.0	632.7	575.3	17.0	653.0	3.1	Robust revenue growth of 17.0% YoY due to strong growth across explosives and defence segment
Raw materials costs	396.8	348.3	331.2	19.8	374.9	5.9	SIL witnessed gross margin contraction of ~140 bps YoY due to higher prices of key raw material - ammonium nitrate
Employees Cost	48.0	48.4	30.4	58.0	46.6	3.0	
Other Expenses	85.9	102.5	95.6	-10.2	110.1	-22.0	Other expenses de-grew 10.2% YoY due to lower share of exports translating in lower distribution costs
Total Expenditure	530.7	499.2	457.2	16.1	531.6	-0.2	
EBITDA	142.3	133.5	118.1	20.4	121.4	17.2	
EBITDA margins (%)	21.1	21.1	20.5	61 bps	18.6	255 bps	
Depreciation	14.8	14.9	12.3	20.5	15.0	-0.9	
EBIT	127.5	118.6	105.8	20.4	106.4	19.8	
Interest	10.6	14.0	8.4	26.8	14.6	-27.4	
Other Income	2.6	4.2	3.8	-30.9	3.4	-23.3	
Extra Ordinary Item	6.1	0.0	0.0	NA	0.0	0.0	Exceptional expense - write-off of ₹ 6.05 crore
PBT	113.4	108.8	101.2	12.0	95.2	19.1	
Total Tax	38.2	32.6	33.4	14.1	21.6	76.9	
PAT(after MI)	71.6	72.2	65.9	8.6	68.5	4.5	

Key Metrics	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Ind. explosives volume (MT)	105,244	96,057	9.6	95,719	10.0
Realisation (₹/MT)	36,342	34,476	5.4	36,920	-1.6
Value (₹ crore)	382	331	15.5	353	8.2
Initiating Systems (₹ crore)	76	62	23.6	63	20.6
Exports & Overseas (₹ crore)	170	203	-16.0	239	-28.9
Defence (₹ crore)	57	19	206.6	41	40.0

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY17	FY18	FY19	FY20E		% Change	FY21E		% Change
	Actual	Actual	Actual	Old	New		Old	New	
Revenue	1,580.0	1,916.1	2,461.6	2,882.7	2,857.6	-0.9	3,309.5	3,215.0	-2.9
EBITDA	323.9	411.6	501.9	596.7	603.0	1.0	685.1	684.8	0.0
EBITDA Margin (%)	20.5	21.5	20.4	20.7	21.1	40 bps	20.7	21.3	60 bps
PAT	186.5	220.6	267.7	301.3	303.8	0.8	350.5	347.6	-0.8
EPS (₹)	20.6	24.4	29.6	33.3	33.6	0.8	38.7	38.4	-0.7

Source: Company, ICICI Direct Research

Conference call key highlights

Q4FY19/FY19 operational performance

- Domestic business witnessed strong demand from infrastructure i.e. road construction
- Demand from coal mining sector was subdued. However, FY20E is expected to be ramped up
- Global recruitment in overseas locations contributed to higher employee expenses. Employee expenses as a percentage of sales are expected to remain the same. Expect a gradual decline
- Other expense were lower due to lower exports resulting in lower distribution costs
- Institutional sales were impacted due to loss of orders from Singareni Collieries

Capital Investments

- Capex carried out during FY19 was ₹ 271 crore. Capital investments on domestic, overseas and defence were ₹ 119.4 crore, ₹ 84.2 crore and ₹ 67.3 crore, respectively
- Capex planned for FY20E is estimated at ₹ 265 crore. Defence allocation is at ₹ 90 crore
- Land acquired in Nagpur to be used for expansion purposes

Overseas and exports

- Decline in overseas segment, i.e. Turkey witnessed a slowdown in traction due to extended snowfall and municipal elections
- Operations in Zambia were impacted due to some local economic scenarios; the company had purposely reduced supplies. The company has restored supplies in Q1FY20E
- The company began operations in South Africa. Operations in Ghana and Australia are being set up and is expected to be operational in FY20E

Forward guidance

- Maintain a 20%+ topline growth guidance
- Expect explosives volume for FY20E at 410,000 tonnes; translating to ~15% volume growth

Order book

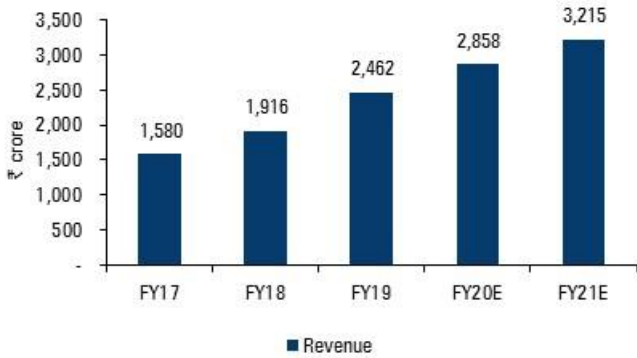
- Order book backlog as on FY19 – ₹ 1146 crore;
- Breakup of the same: Coal India - ₹ 530 crore; Singareni Collieries – ₹ 750 crore; Defence - ₹ 396 crore
- Order book of initiating systems is ~5-10% of (orders under Coal India and Singareni Collieries)

Developments in Defence segment

- Expect FY20E revenue at ~₹ 300 crore; order book for defence is at ₹ 396 crore
- Await fresh orders of propellants for Aakash, pyros in FY20E
- Participated in various RFPs for Pinaka & warheads, LR-SAM and await results for the same

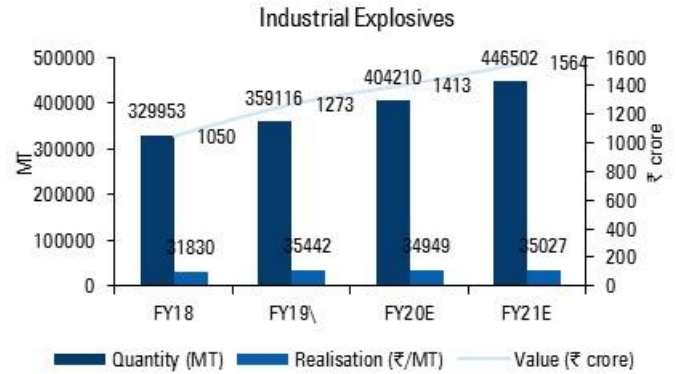
Financial Story in Charts

Exhibit 3: Revenue trend



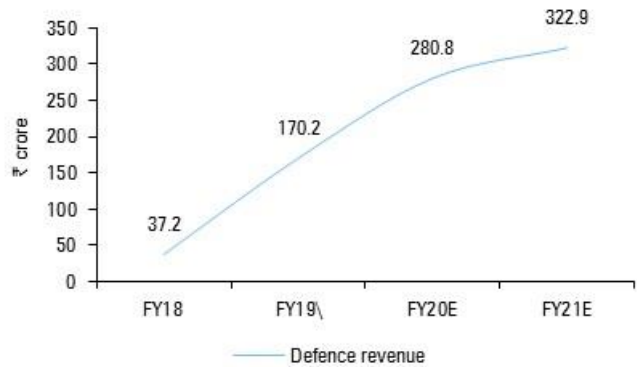
Source: Company, ICICI Direct Research

Exhibit 4: Industrial explosives growth trend



Source: Company, ICICI Direct Research

Exhibit 5: Defence segment revenue trend



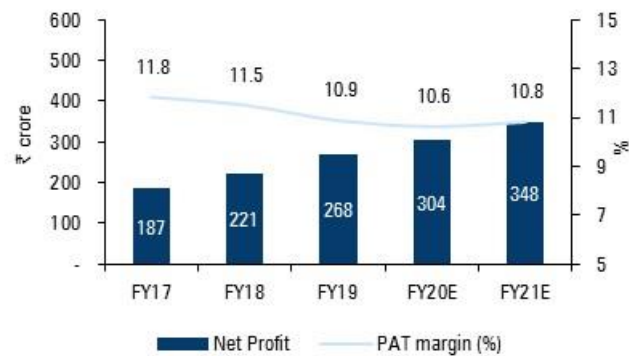
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and EBITDA margin trend



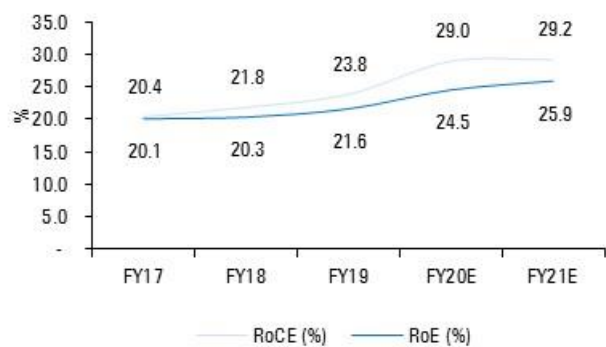
Source: Company, ICICI Direct Research

Exhibit 7: PAT and PAT margin trend



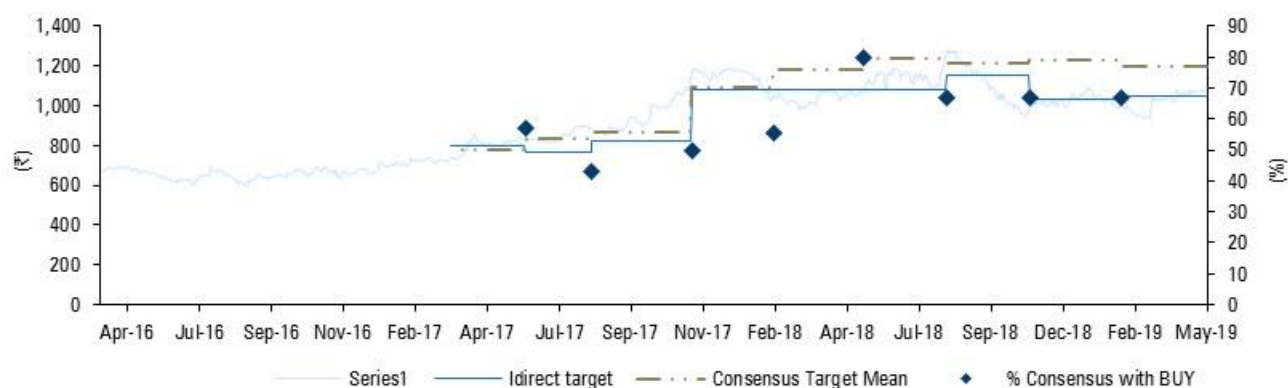
Source: Company, ICICI Direct Research

Exhibit 8: PAT and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 9: Recommendation history vs. consensus



Source: Company, ICICI Direct Research

Exhibit 10: Top 10 shareholders

Rank	Name	Filing Date	% O/S	Position	osition Change
1	Nuwal (Manish Satyanarayan)	31-03-2019	27.88%	25.23M	0
2	Nuwal (Kailashchandra Nandlalji)	31-03-2019	23.08%	20.88M	0
3	Nuwal (Satyanarayan Nandlal)	31-03-2019	14.63%	13.24M	0
4	HDFC Asset Management Co., Ltd.	31-03-2019	7.01%	6.34M	0
5	Nuwal (Indiradevi Kailashchandra)	31-03-2019	6.15%	5.57M	0
6	SBI Funds Management Pvt. Ltd.	31-03-2019	4.67%	4.22M	0
7	Kotak Mahindra Asset Management Co	31-03-2019	3.27%	2.96M	+0.21M
8	ICICI Prudential Life Insurance Company	31-03-2019	1.88%	1.70M	-0.21M
9	DSP Investment Managers Pvt. Ltd.	31-03-2019	1.83%	1.65M	0
10	Nuwal (Seema Manish)	31-03-2019	1.37%	1.24M	0

Source: Company, ICICI Direct Research

Exhibit 11: Recent activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Kotak Mahindra Asset Management Company Ltd.	+3.36M	+0.21M	Nuwal (Leeladevi Satyanarayan)	-79.43M	-5.08M
Canara Robeco Asset Management Company Ltd.	+1.91M	+0.12M	Nuwal (Sohandevi Nandlal)	-72.76M	-4.65M
J.P. Morgan Asset Management (Hong Kong) Ltd.	+0.29M	+0.02M	Nuwal (Kailashchandra) HUF	-35.61M	-2.51M
Fidelity Management & Research Company	+0.09M	+0.01M	Nuwal (Satyanarayan) HUF	-38.65M	-2.47M
Shriram Asset Management Company Ltd.	+0.06M	+0.00M	Nuwal (Nandlalji Bodulalji) HUF	-29.93M	-2.11M

Source: Company, ICICI Direct Research

Exhibit 12: Shareholding pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	73.2	73.2	73.2	73.2	73.2
FII	1.5	1.3	1.3	1.4	1.4
DII	20.1	20.3	20.3	20.2	20.3
Others	5.3	5.3	5.3	5.3	5.2

Source: Company, ICICI Direct Research

Financial Summary (Consolidated)

Exhibit 13: Profit and loss statement (₹ Crore)				
(Year-end March)	FY18	FY19	FY20E	FY21E
Revenue	1,916	2,462	2,858	3,215
Growth YoY (%)		28.5	16.1	12.5
Raw Material Expenses	1,064	1,401	1,606	1,800
Gross Margins	55.5	56.9	56.2	56.0
Employee Expenses	133	184	217	244
Other Expenses	308	374	432	485
Total Operating Expenditure	1,505	1,960	2,255	2,530
Operating Profit (EBITDA)	412	502	603	685
Growth YoY (%)		22.0	20.1	13.6
Interest	33	50	58	64
Other Income	12	15	22	27
PBDT	391	467	566	647
Depreciation	51	59	68	77
PBT after Exceptional Items	340	408	498	570
Total Tax	106	125	168	192
PAT before MI	234	283	330	378
Minority Interest	13	15	26	30
PAT	221	268	304	348
Growth YoY (%)		21.4	13.5	14.4
EPS	24.4	29.6	33.6	38.4

Source: Company, ICICI Direct Research

Exhibit 14: Cash Flow Statement (₹ Crore)				
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	220.6	267.7	303.8	347.6
Add: Depreciation	51.3	58.9	68.3	76.9
Add: Interest Paid	32.7	49.9	58.1	64.5
Cash Flow before WC changes	304.6	376.4	430.2	489.0
(Increase)/Decrease in inventory	(51.4)	(50.3)	(46.1)	(49.9)
(Increase)/Decrease in debtors	(44.5)	(35.5)	(62.9)	(66.6)
(Increase)/Decrease Loans & Adva	13.3	10.2	(0.0)	(0.3)
(Increase)/Decrease in CA	(15.9)	7.6	(1.9)	(2.1)
Net Increase in Current Assets	(56.7)	(128.0)	(110.9)	(118.9)
Net Increase in Current Liabilities	8.3	87.2	45.4	22.6
Net CF from operating activities	256.2	335.6	364.7	392.7
(Purchase)/Sale of Fixed Assets	(213.2)	(270.9)	(265.0)	(200.0)
Inc / (Dec) in Deferred Tax Liability	17.1	18.4	-	-
Net CF from Investing Activities	(159.6)	(200.4)	(255.4)	(198.1)
Proceeds/(Repay) Secured Loan	48.2	(40.0)	138.9	5.0
Proceeds/(Repay) Unsecured Loan	(31.2)	83.1	7.1	5.0
(Payment) of DDT	(65.6)	(76.3)	(87.2)	(98.1)
Interest Paid	(32.7)	(49.9)	(58.1)	(64.5)
Net CF from Financing Activities	(66.5)	(112.8)	(112.5)	(227.5)
Net Cash flow	30.1	22.3	(3.1)	(33.0)
Cash and Cash Eq. (beginning)	39.4	69.5	91.8	88.7
Cash and Cash Equivalent (end)	69.5	91.8	88.7	55.7

Source: Company, ICICI Direct Research

Exhibit 15: Balance Sheet				
(Year-end March)	FY18	FY19	FY20E	FY21E
Equity Capital	18.1	18.1	18.1	18.1
Reserve and Surplus	1,065.8	1,220.2	1,323.5	1,498.0
Total Shareholders funds	1,083.9	1,238.3	1,341.6	1,516.1
Secured Loan	196.1	156.1	295.0	300.0
Unsecured Loan	229.8	312.9	320.0	325.0
Total Debt	425.9	469.1	615.0	625.0
Deferred Tax Liability	101.1	119.5	119.5	119.5
Minority Interest	47.4	47.6	51.1	53.0
Total Liabilities	1,706	1,921	2,174	2,360
Gross Block	1,153.8	1,354.5	1,714.3	1,924.3
Accumulated Depreciation	238.6	297.5	365.8	442.7
Net Block	915.1	1,057.0	1,348.5	1,481.6
Capital WIP	107.4	177.6	60.0	50.0
Total Fixed Assets	1,022.5	1,234.5	1,408.5	1,531.6
Inventory	232.4	282.7	328.8	378.8
Debtors	363.6	399.0	461.9	528.5
Loans and Advances	12.4	2.3	2.3	2.6
Other Current Assets	74.3	66.7	68.6	70.7
Cash	69.5	91.8	88.7	55.7
Total Current Assets	818.7	969.0	1,076.7	1,162.7
Creditors	127.2	163.3	191.8	202.6
Provisions	132.7	194.2	211.0	222.8
Total Current Liabilities	273.8	361.0	406.3	428.9
Net Current Assets	544.9	608.0	670.4	733.7
Total Assets	1,706	1,921	2,174	2,360

Source: Company, ICICI Direct Research

Exhibit 16: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per Share Data				
Reported EPS	24.4	29.6	33.6	38.4
Cash EPS	30.0	36.1	41.1	46.9
BV per share	119.8	136.8	136.8	148.3
Dividend per share	6.0	7.0	7.0	8.0
Cash Per Share	26.4	32.9	32.9	40.4
Operating Ratios (%)				
EBITDA Margin	21.5	20.4	21.1	21.3
EBIT / Net Sales	18.8	18.0	18.7	18.9
PAT / Net Sales	11.5	10.9	10.6	10.8
Inventory days	44.3	41.9	36.1	37.3
Debtor days	69.3	59.2	51.0	52.4
Creditor days	24.2	24.2	20.9	21.8
Return Ratios (%)				
RoE	20.3	21.6	24.5	25.9
RoCE	21.8	23.8	29.0	29.2
RoIC	27.2	30.6	37.0	33.7
Valuation Ratios (x)				
P/E	43.3	35.7	31.4	27.5
EV / EBITDA	24.1	19.8	16.5	14.7
EV / Net Sales	5.2	4.0	3.5	3.1
Market Cap / Sales	5.0	3.9	3.3	3.0
Price to Book Value	8.8	7.7	7.7	7.1
Solvency Ratios				
Debt / EBITDA	1.0	0.9	0.8	0.9
Debt / Equity	0.4	0.4	0.4	0.5
Current Ratio	2.5	2.1	2.1	2.1
Quick Ratio	1.6	1.3	1.3	1.3

Source: Company, ICICI Direct Research

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Hold : -5% to 15%;

Reduce : -5% to -15%;

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