

Q1FY21 concall update

Defence

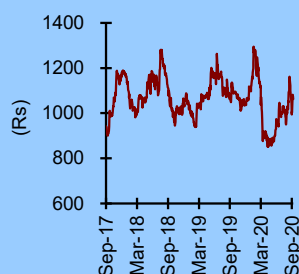
Target price: Rs924

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	73.2	73.2	73.2
Institutional investors	22.1	22.2	22.0
MFs and other	17.1	17.0	16.6
FIs/Insurance	1.4	1.2	1.0
FII	3.6	4.0	4.4
Others	4.7	4.6	4.8

Source: BSE India

Price chart



Research Analyst:

Abhijit Mitra

abhijit.mitra@icicisecurities.com
+91 22 6637 7289

INDIA



Solar Industries

REDUCE

Maintained

Rs1,063

Overseas and defence key to profitability

Solar Industries' (SOIL) conference call underlined the strength of the business model; growth opportunities will determine the next phase of investment thesis. Management commentary highlighted: i) Overseas operations – with the desired experience of getting into the big league of mining through presence in South Africa and Australia eventually to reap dividends and ii) defence – where SOIL's own preparedness meet with government readiness to entertain private sector, thereby, increasing probability of order inflows. ISRO opportunity will be delineated once better clarity emerges. We maintain our REDUCE rating on the stock.

- **Overseas business recovery is one of the key levers for profitability going forward.** While South Africa and Australia incurred significant losses of Rs645mn and Rs186mn for FY20, respectively, management reiterated that business profitability will improve going forward. Management stays prospective of US\$1bn explosives market opportunity in African continent (Ghana manufacturing has started in Q1FY21 as per annual report) and US\$580mn opportunity in South Africa. With expansion into Australia and South Africa, SOIL has broken into big league of mining – an experience developed over the past five years, with players like Anglo American as prospective customers. SOIL currently has 125,000te of overseas explosive capacity and produced ~100,000te in FY20.
- **Apart from overseas, defence can be the next big opportunity for SOIL.** SOIL is prepared, through suitable investments to capture any opportunity that come towards private sector for ammunition manufacturing. Product capability includes high energy materials, composite propellants, explosive filling for ammunitions, rocket integration, fuses, pyros and igniters etc. Management also highlighted that i) SOIL is expected to receive final orders for execution of multi-modal hand grenade orders – while not disclosing the amount of the contract. It would entail supply of 1mn pieces over two years and ii) Indian army has successfully tested Pinaka integrated and supplied by Solar Industries – this can be a big opportunity for SOIL as and when it materialises.
- **Balance sheet management.** Management will seek to maintain 0.5x net debt to equity. FY21 capex will be Rs2.1bn; FY22 capex, yet to be finalised based on extant opportunity, is likely to be ~Rs2.5bn. Capital allocation continues to be directed towards overseas as well as domestic operations. Packaged scheme of SGST benefits in Maharashtra will continue till FY22. Capex for Q1FY22 was Rs488mn and planned capex for FY21 is Rs2.1bn.
- **Maintain REDUCE.** Management expects infra and housing segments to recover in H2FY21. The business is currently being overseen by Mr. Suresh Menon (Executive Director). We value SOIL at 26x FY22E P/E.

Market Cap	Rs96bn/US\$1.3bn
Reuters/Bloomberg	SOIL.BO/SOIL IN
Shares Outstanding (mn)	90.5
52-week Range (Rs)	1294/851
Free Float (%)	26.8
FII (%)	4.4
Daily Volume (US\$/'000)	403
Absolute Return 3m (%)	11.5
Absolute Return 12m (%)	0.2
Sensex Return 3m (%)	17.0
Sensex Return 12m (%)	8.0

Year to March	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	24,616	22,373	19,947	27,609
Net Income (Rs mn)	2,616	2,674	1,968	3,216
Dil. EPS (Rs)	28.9	29.6	21.8	35.5
% Chg YoY	18.6	2.2	(26.4)	63.4
P/E (x)	37.4	36.5	49.7	30.4
CEPS (Rs)	17.9	9.8	(19.4)	45.8
EV/E (x)	20.5	24.0	26.0	17.6
Dividend Yield (%)	0.65	0.56	0.56	0.56
RoCE (%)	26.8	19.9	15.8	22.8
RoE (%)	22.5	20.4	13.6	19.4

Please refer to important disclosures at the end of this report

Table 1: Q1FY21 result review (standalone)

(Rs mn)	Q1FY21	Q1FY20	%Chg YoY	Q4FY20	%Chg QoQ
Net Sales / Income from Operations	3,006	4,033	(25.5)	3,925	(23.4)
Total Income	3,006	4,033	(25.5)	3,925	(23.4)
Expenditure					
Change in Stock	1	(112)		(67)	
Consumption of Material	1,722	2,505	(31.3)	2,343	(26.5)
Purchase of traded goods	140	156	(10.0)	296	(52.8)
Employee Costs	213	238	(10.8)	244	(13.0)
Other Expenditure	443	450	(1.6)	525	(15.6)
Total Expenditure	2,518	3,237	(22.2)	3,341	(24.6)
EBITDA	489	795	(38.6)	583	(16.3)
EBITDA Margin	16.2	20		15	
Other Income	77	66	16.7	117	(33.9)
Depreciation	92	79	16.1	89	2.9
Interest and Finance Costs	16	21	(21.7)	22	(27.4)
Exceptional Items	-	-		-	
PBT	458	762	(39.9)	589	(22.3)
Tax Expense	117	263	(55.4)	144	
MI	-	-		-	
PAT	352	500	(29.6)	445	(20.9)
OCI	1	(2)		(5)	
TCI	352	498		440	

Source: Company data, I-Sec research

Table 2: Q1FY21 result review (consolidated)

(Rs mn)	Q1FY21	Q1FY20	%Chg YoY	Q4FY20	%Chg QoQ
Net Sales / Income from Operations	4,911	6,200	(20.8)	5,475	(10.3)
Other Operating Income	-	-		-	
Total Income	4,911	6,200	(20.8)	5,475	(10.3)
Expenditure					
Change in Stock	119	(148)		(78)	
Consumption of Material	2,242	3,198	(29.9)	2,673	(16.1)
Purchase of traded goods	337	510	(33.9)	368	(8.4)
Employee Costs	488	524	(6.8)	574	(14.9)
Other Expenditure	806	871	(7.4)	1,040	(22.5)
Total Expenditure	3,992	4,955	(19.4)	4,578	(12.8)
EBITDA	919	1,246	(26.2)	897	2.5
EBITDA Margin (%)	18.7	20.1		16.4	
Other Income	39	57	(32.3)	199	(80.5)
Depreciation	228	195	16.8	221	2.9
Interest and Finance Costs	123	121	1.7	144	(14.7)
Exceptional Items	-	-		-	
PLT	607	987	(38.5)	730	(16.8)
Tax Expense	168	249	(32.6)	198	(15.5)
-Current Tax	184	348		220	(16.1)
-Deferred Tax	(6)	(99)		(22)	
-Prior Period Taxes	(11)	-		0	
PAT Lefore MI	440	738		532	(17.3)
MI	19	27		32	(41.9)
PAT	421	711	(40.8)	500	(15.7)
OCI	(11)	25		(510)	
TCI	410	686		(11)	

Source: Company data, I-Sec research

Table 3: Customer-wise details

(Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	% Chg QoQ	% Chg YoY
Coal India	1,099	753	900	1,064	985	(7.4)	(10.4)
Institutional	718	655	807	702	487	(30.7)	(32.2)
Trade and infrastructure	2,115	1,094	1,308	1,628	1,073	(34.1)	(49.3)
Exports and overseas	1,955	2,023	2,216	1,738	2,071	19.1	5.9
Power & Others	62	93	122	78	62	(20.6)	(0.2)
Defence	252	447	258	265	235	(11.5)	(6.9)
Total	6,200	5,066	5,611	5,475	4,911	(10.3)	(20.8)

Source: Company data, I-Sec research

Overseas story needs to get back on track

SOIL's export + overseas revenues increased 6% YoY – an impressive performance given the weak external environment. The periodic trouble in host countries makes business predictability a bit difficult in our assessment despite extremely low base of operations. The overseas business (alone) was expected to touch Rs9.5bn in FY20. The pandemic will delay revenue target, but the base business triggers are intact in our view to continue profitable expansion in overseas business. The two key underlining triggers which can help SOIL increase market share in a pretty large industrial explosive market globally are: i) **New geographies – Australia and South Africa had ~Rs780mn of PAT losses in FY20 which can normalise as business picks up** and ii) SOIL exports labour cost-intensive accessories from India to be sold along with bulk/packaged explosives in overseas market. This will continue to aid profitability and market share gains for SOIL's overseas segment.

Table 4: Topline breakup of SOIL

(Rs mn)	FY14	FY15	FY16	FY17	FY18	FY19	FY20
CIL	4,040	5,450	4,057	3,631	3,262	4,292	3,816
Non CIL & Institutional	1,370	1,290	1,755	3,249	3,216	2,858	2,883
Housing & Infra (Trade)	3,050	3,680	4,054	3,963	4,883	6,628	6,154
Total Explosives	8,460	10,420	9,865	10,843	11,361	13,778	12,853
Exports & Overseas	3,490	4,050	4,760	4,730	7,222	8,663	7,927
Exports	1,162	708	1,425	1,496	1,731	2,006	-
Exports – Standalone	659	708	1,425	1,496	1,162	868	-
Exports – Sub	503	-	-	-	569	1,138	-
Overseas	-	-	77	110	372	1,702	1,222
Defence	-	-	77	110	372	1,702	1,222
Others	220	80	95	117	207	473	371
Total (Consol)	12,170	14,550	14,797	15,800	19,161	24,616	22,373
Subs (Economic + Blastek + Overseas)	2,989	4,157	4,434	4,950	7,627	9,889	7,927
Standalone	9,855	11,168	11,250	12,532	13,054	16,632	14,446

Source: Company data, I-Sec research

Maintain REDUCE; valuation methodology and key risks

Given slow execution and limited visibility on ramp-up of defence business, we value SOIL on a consolidated P/E of 26x on FY22E. Government (India + abroad) capex revival is key to recovery in SOIL's revenue in FY22. **The strength of guidance (increase in topline YoY and higher margins)** and aligned execution are key risks to our call.

Financial summary

Table 5: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Income	24,616	22,373	19,947	27,609
Operating Expenses	19,596	18,030	15,972	21,758
EBITDA	5,019	4,343	3,975	5,850
% margins	20.4	19.4	19.9	21.2
Depreciation & Amortisation	589	845	870	921
Gross Interest	499	550	474	474
Other Income	147	411	263	267
Recurring PBT	4,079	3,358	2,893	4,722
Add: Extra ordinaries	61	-	-	-
Less: Taxes	1,251	571	804	1,301
Less: Minority	152	112	121	205
Recurring Net Income	2,616	2,674	1,968	3,216

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	9,384	9,835	8,811	11,105
of which cash & cash eqv.	918	1,201	1,375	1,780
Total Current Liabilities & Provisions	2,222	2,231	2,091	2,686
Net Current Assets	7,161	7,604	6,720	8,419
Investments	326	24	703	703
Strategic/Group	26	23	703	703
Other Marketable	301	0	0	0
Net Fixed Assets	12,118	13,468	14,338	15,517
Capital Work-in-Progress	1,665	1,522	1,230	1,230
Goodwill	86	99	99	99
Total Assets	20,307	22,577	23,243	26,121
Liabilities				
Borrowings	6,544	7,728	6,889	6,889
Deferred Tax Liability	904	533	492	492
Minority Interest	476	515	636	841
Equity Share Capital	181	181	181	181
Face Value per share (Rs)				
Reserves & Surplus*	12,202	13,620	15,045	17,718
Net Worth	12,383	13,801	15,226	17,899
Total Liabilities	20,307	22,577	23,243	26,121

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow ex WC	3,616	3,582	3,129	4,549
Working Capital Changes	(1,032)	(334)	1,058	(1,294)
Capital Commitments	(2,526)	(2,411)	(1,741)	(2,100)
Free Cashflow	58	837	2,446	1,155
Cashflow from Investing Activities				
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	735	924	(838)	-
Dividend paid	634	543	543	543
Chg. in Cash & Bank balance	85	316	174	405

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	28.9	29.6	21.8	35.5
Diluted Recurring EPS	28.9	29.6	21.8	35.5
Recurring Cash EPS	35.4	38.9	31.4	45.7
Dividend per share (DPS)	7.0	6.0	6.0	6.0
Growth Ratios (%)				
EBITDA	22.0	(13.5)	(8.5)	47.2
Recurring Net Income	18.6	2.2	(26.4)	63.4
Diluted Recurring EPS	18.6	2.2	(26.4)	63.4
Diluted Recurring CEPS	17.9	9.8	(19.4)	45.8
Valuation Ratios (x)				
P/E	37.4	36.5	49.7	30.4
P/CEPS	30.5	27.8	34.4	23.6
P/BV	7.9	7.1	6.4	5.5
EV / EBITDA	20.5	24.0	26.0	17.6
EV / Operating Income	22.5	26.7	30.7	19.8
EV / FCF	1,240	124	42	89
Operating Ratios (%)				
Raw Material/Sales	56.9	54.3	53.1	54.2
SG&A/Sales	-	-	-	-
Other Income / PBT	3.7	12.2	9.1	5.6
Effective Tax Rate	31.1	17.0	27.8	27.6
NWC / Total Assets	0.4	0.3	0.3	0.3
Inventory Turnover (days)	71.6	87.8	87.8	87.8
Receivables (days)	59.2	71.8	71.8	71.8
Payables (days)	13.1	17.2	17.2	17.2
Net D/E Ratio (x)	0.43	0.47	0.36	0.29
Return/Profitability Ratios (%)				
Recurring Net Income Margins	10.6	12.0	9.9	11.6
RoCE	26.8	19.9	15.8	22.8
RoNW	22.5	20.4	13.6	19.4
Dividend Payout Ratio	24.2	20.3	27.6	16.9
EBITDA Margins	20.4	19.4	19.9	21.2

Source: Company data, I-Sec research

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