

Strong earnings momentum continues...

About the stock: Solar Industries (SIL) is the largest manufacturer of industrial explosives and explosive initiating systems in India.

- It has a capacity of ~300,000 MT/year. It holds reasonable market share in India of ~28%
- It also leads the exports share from India, which is around 70% in industrial explosive and initiating system
- It exports to 55 countries in the world and has recently expanded its manufacturing base to many African Countries

Q3FY22 Results: Solar reported handsome numbers in Q3FY22.

- Revenue for the quarter came in at ₹ 1017.09 crore, up 57.6% YoY & 29.2% QoQ
- EBITDA margins came in at 17.5% vs 20.5% YoY & 16.7% QoQ. EBITDA came in at ₹ 178 crore, up 34.6% YoY & 35.1% QoQ.
- PAT (post minority interest) of ₹ 102.1 crore in Q3FY22 vs. ₹ 78 crore in Q3FY21 and ₹ 73.8 crore in Q2FY22

What should investors do? Solar is expected to perform decently, going ahead, but we believe the price reflects this.

- We maintain our HOLD rating on the stock

Target Price and Valuation: We value the stock at ₹ 2520, valuing the business at 35x FY24E earnings.

Key triggers for future price performance:

- Overseas subsidiaries breaking even and commencement of operations in Tanzania; capacity expansion and increase in geographical reach
- Defence and export segments picking up

Alternate Stock Idea: We also like NRB in our capital goods coverage.

- It offers a play on needle roller bearings, which are largely used in auto applications.
- BUY with a target price of ₹ 220 per share i.e. 18x P/E on FY24E EPS.



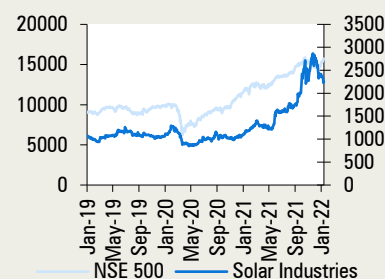
Particulars

Particular	Amount
Market Capitalization	21,446
Total Debt (FY21) (₹ crore)	645
Cash and Inv (FY21) (₹ crore)	181
EV (FY20) (₹ crore)	21,910
52 week H/L (₹) (BSE)	2847 /978
Equity capital (₹ crore)	18
Face value (₹)	2

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	73.2%	73.2%	73.2%	73.2%
FII	5.4%	5.5%	5.8%	6.4%
DII	16.8%	16.7%	16.2%	15.4%
Others	4.6%	4.7%	4.9%	5.0%

Price Chart



Recent event & key risks

- Potential third wave in countries where it has overseas business
- **Key Risk:** i) Further rise in prices of raw material

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Yash Panwar
yash.panwar@icicisecurities.com

Key Financial Summary

(Year-end March)	FY20	FY21	5 Year CAGR (FY16-FY21)			FY22E	FY23E	FY24E	3 Year CAGR (FY21-FY24E)
Revenue	2,237.3	2,515.6	11.8		3,781.9	4,542.8	5,405.4	28.7	
EBITDA	434.3	514.6	11.1		741.3	931.3	1,135.1	29.8	
EBITDA margin (%)	19.4	20.5			19.6	20.5	21.0		
Net Profit	267.4	276.4	11.0		401.1	526.1	652.1	32.8	
EPS (₹)	29.6	30.5			44.3	58.1	72.1		
P/E (x)	80.2	77.6			53.5	40.8	32.9		
EV/EBITDA (x)	50.5	42.6			29.6	23.5	19.2		
RoCE (%)	17.6	17.6			24.3	27.9	29.7		
RoE (%)	19.2	17.4			22.1	24.0	24.4		

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q3FY22 Results: Strong earnings momentum continues

- Revenue for the quarter came in at ₹ 1017.09 crore, up 57.6% YoY & 29.2% QoQ. Explosives volume rose 21.4% YoY and 30.3% QoQ whereas realisations jumped 51.7% YoY and 19.9% QoQ. As a result, overall explosives segment revenue leaped 84.1% YoY and 56.2% QoQ to ₹ 513 crore. Accessories segment registered an improvement of 9.8% YoY to ₹ 101 crore. Defence segment revenue came in at ₹ 72.8 crore, up 217.6% YoY and 27.3% QoQ. Overseas segment revenue came in at ₹ 330.9 crore, up 34.5% YoY and 4.1% QoQ
- Gross margins contracted ~ 290 bps YoY and remained flat on QoQ (YoY contraction was due to higher input costs). As a result, EBIDTA margins declined and came in at 17.5% vs 20.5% YoY & 16.7% QoQ (EBITDA margins increase QoQ due to positive operating leverage). Solar posted an EBIDTA of ₹ 178 crore, up 34.6% YoY & 35.1% QoQ
- Solar posted PAT (post minority interest) of ₹ 102.1 crore in Q3FY22 vs. ₹ 78 crore in Q3FY21 & ₹ 73.8 crore in Q2FY22

Q3FY22 Earnings Conference Call highlights

- The company has achieved highest ever quarterly revenue of ₹ 1017 crore. Due to this exceptional quarter, the company has increased its revenue growth rate for FY22 to 50% YoY compared to earlier 40%. Out of this, 50% growth, 25-27% will be through volume growth and rest will be through price growth
- Government initiative like Housing for All, Gati Shakti, Atmanirbhar Bharat and Make in India are also expected to boost the company's performance
- The company has set a target of 19-20% EBITDA margin this year due to rising commodity prices. However, in the coming year, it is expected to reach 21-22%. The company will pass on some part of higher raw material prices to its customers in the coming quarter
- In the current quarter, EBITDA is low mainly due to rising raw material prices, disruptions like freight costing and turmoil in turkey resulting in depreciation of more than 47% of its currency value resulting in loss of ₹ 37 crore in Forex
- The defence segment is set to achieve revenue of ₹ 270 crore in FY22 and ₹ 350-400 crore in FY24. The current order book is at ₹ 537 crore. The company is qualified for Pinaka manufacturing and Advance Pinaka testing and will be done in coming quarter while SIL is expected to be the lead runner for that as it has prior experience in Pinaka rockets
- SIL is focused on expanding capacity, product mix and presence both domestically and internationally. The company is planning to set up two new plants in India
- The overseas segment continues to perform better as South Africa is close to attaining break even on the EBITDA side in the next quarter. In Australia, the company has set-up a greenfield expansion, which will start operating in the next quarter. The Indonesia facility will be operational in the next six months. The company has a market share of 40% in Nigeria, 23% in Turkey and 12-15% in other geographies
- Currently, export and overseas are contributing around 37% of revenues and is expected to achieve 40% in coming quarters. Defence segment is anticipated to contribute around 15% of revenue in coming quarters
- Although initiating system did not perform well in this quarter due to shipment issues, SIL is trying to rationalise inventory. It is expected to perform better in coming quarters
- There is no plan to increase dividend payout as the company is looking to conserve cash and use it for expansion as it will give good results. SIL plans to maintain a debt/equity ratio of 0.5
- The company has a capex guidance of ₹ 325 crore in FY22 out of which ₹ 215 crore has already been spent.

Exhibit 1: Variance Analysis

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Total Revenues	1,017.9	645.9	57.6	787.7	29.2	Good set of numbers due to favourable macros
Raw materials costs	599.8	351.6	70.6	441.9	35.7	Higher raw material costs
Employees Cost	67.4	59.5	13.3	65.5	2.8	
Other Expenses	172.7	102.5	68.5	148.5	16.3	
Total Expenditure	839.9	513.6	63.5	655.9	28.1	
EBITDA	178.0	132.2	34.6	131.8	35.1	
EBITDA margins (%)	17.5	20.5	-299 bps	16.7	76 bps	Lower margings due to high raw material prices
Depreciation	27.2	24.4	11.6	27.3	-0.2	
EBIT	150.8	107.9	39.8	104.5	44.3	
Interest	13.4	10.9	22.6	11.8	13.6	
Other Income	7.1	13.2	-46.6	11.0	-35.8	
Extra Ordinary Item	0.0	0.0		0.0	0.0	
PBT	144.4	110.2	31.1	103.7	39.3	
Total Tax	39.4	28.7	37.0	29.0	36.0	
PAT(after MI)	102.1	78.0	30.8	73.8	38.4	

Key Metrics	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	
Ind. explosives volume (MT)	104,717	86,265	21.4	80,377	30.3	Strong volumes witnessed YoY, and QoQ
Realisation (₹/MT)	49,004	32,304	51.7	40,874	19.9	Realisation grew 51.7% YoY and 19.9% QoQ
Value (₹ crore)	513	279	84.1	329	56.2	
Initiating Systems (₹ crore)	101	92	9.8	84	20.2	Better-than-expected performance from initiating systems
Overseas (₹ crore)	331	247	34.1	318	4.1	Strong performance across geographies
Defence (₹ crore)	73	23	217.6	57	27.3	Multi mode hand grenade propelled defence revenue

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21		FY22E		FY23E			FY24E		
	Actual	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	2,515.6	3,623.5	3,781.9	4.4	4,297.0	4,542.8	5.7	5,090.0	5,405.4	6.2
EBITDA	514.6	746.4	741.3	-0.7	920.0	931.3	1.2	1,110.0	1,135.1	2.3
EBITDA Margin (%)	20.5	20.6	19.6	-4.9	21.5	20.5	-100 bps	21.8	21.0	-80 bps
PAT	276.4	404.6	401.1	-0.8	519.0	526.1	1.4	635.0	652.1	2.7
EPS (₹)	30.5	44.7	44.3	-0.8	57.0	58.1	2.0	70.0	72.1	2.9

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Revenue	2,516	3,782	4,543	5,405
Growth YoY (%)		50.3	20.1	19.0
Raw Material Expenses	1,347	2,194	2,499	2,973
COGS	53.5	58.0	55.0	55.0
Employee Expenses	231	318	413	486
Other Expenses	424	529	700	811
Total Operating Expenditure	2,001	3,041	3,612	4,270
Operating Profit (EBITDA)	515	741	931	1,135
Growth YoY (%)		44.0	25.6	21.9
Interest	45	56	51	46
Other Income	21	30	40	40
PBDT	491	715	920	1,129
Depreciation	94	109	126	145
PBT after Exceptional Items	397	606	794	984
Total Tax	109	170	222	276
PAT before MI	288	436	572	709
Minority Interest	12	35	46	57
PAT	276	401	526	652
Growth YoY (%)		45.2	31.2	24.0
EPS	30.5	44	58	72

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	276	401	526	652
Add: Depreciation	94	109	126	145
Add: Interest Paid	45	56	51	46
Cash Flow before WC changes	415	567	703	843
(Increase)/Decrease in inventory	(110)	5	(88)	(99)
(Increase)/Decrease in debtors	(85)	(166)	(125)	(142)
(Increase)/Decrease Loan & Advances	2	1	(1)	(1)
(Increase)/Decrease in CA	(12)	(1)	(17)	(19)
Net Increase in Current Assets	(181)	(161)	(230)	(261)
Net Increase in Current Liabilities	212	4	104	118
Net CF from operating activities	446	410	577	700
(Purchase)/Sale of Fixed Assets	(210)	(325)	(350)	(350)
Inc / (Dec) in Deferred Tax Liability	12	-	-	-
Net CF from Investing Activities	(203)	(272)	(347)	(347)
Proceeds/(Repay) Secured Loan	189	(101)	(50)	(25)
Proceeds/(Repay) Unsecured Loan	(163)	81	(25)	(25)
(Payment) of Dividend	(54)	(63)	(72)	(90)
Interest Paid	(45)	(56)	(51)	(46)
Net CF from Financing Activities	(97)	(256)	(274)	(261)
Net Cash flow	146	(118)	(43)	92
Cash and Cash Eq. (beginning)	128	274	156	113
Cash and Cash Equivalent (end)	274	156	113	205

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	18.1	18.1	18.1	18.1
Reserve and Surplus	1,572	1,794	2,172	2,659
Total Shareholders funds	1,590	1,812	2,191	2,677
Secured Loan	451	350	300	275
Unsecured Loan	194	275	250	225
Total Debt	645	625	550	500
Deferred Tax Liability	116	116	116	116
Minority Interest	63	76	79	82
Total Liabilities	2,509	2,724	3,031	3,470
Gross Block	1,934	2,234	2,559	2,909
Accumulated Depreciation	476	585	711	856
Net Block	1,253	1,649	1,848	2,054
Capital WIP	282	75	100	100
Total Fixed Assets	1,535	1,724	1,948	2,154
Inventory	440	435	523	622
Debtors	455	622	747	889
Loans and Advances	4	3	4	4
Other Current Assets	82	83	100	119
Cash	181	156	113	205
Total Current Assets	1,226	1,361	1,548	1,901
Creditors	286	259	311	370
Provisions	228	259	311	370
Total Current Liabilities	532	536	640	758
Net Current Assets	694	825	908	1,143
Total Assets	2498	2724	3031	3470

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per Share Data				
Reported EPS	30.5	44.3	58.1	72.1
Cash EPS	40.9	56.4	72.0	88.1
BV per share	175.7	200.2	242.1	295.9
Dividend per share	6.0	6.0	7.0	8.0
Cash Per Share	52.6	64.6	78.6	94.5
Operating Ratios (%)				
EBITDA Margin	20.5	19.6	20.5	21.0
EBIT / Net Sales	16.7	16.7	17.7	18.3
PAT / Net Sales	11.0	10.6	11.6	12.1
Inventory days	63.9	42.0	42.0	42.0
Debtor days	66.1	60.0	60.0	60.0
Creditor days	41.5	25.0	25.0	25.0
Return Ratios (%)				
RoE	17.4	22.1	24.0	24.4
RoCE	17.6	24.3	27.9	29.7
RoIC	22.1	28.0	31.2	33.8
Valuation Ratios (x)				
P/E	77.6	53.5	40.8	32.9
EV / EBITDA	42.6	29.6	23.5	19.2
EV / Net Sales	8.7	5.8	4.8	4.0
Market Cap / Sales	8.5	5.7	4.7	4.0
Price to Book Value	13.5	11.8	9.8	8.0
Solvency Ratios				
Debt / EBITDA	1.3	0.8	0.6	0.4
Debt / Equity	0.4	0.3	0.3	0.2
Current Ratio	1.8	2.1	2.1	2.2
Quick Ratio	1.0	1.3	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 7: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1912	2,270	Buy	268292	81.9	54.7	55.7	23.3	34.9	34.3	8.0	9.3	10.1	12.0	11.7	12.7
Siemens Ltd	2319	2,550	Buy	82584	29.5	37.3	45.0	78.6	62.2	51.5	13.9	15.9	17.4	10.1	11.7	12.9
AIA Engineering (AIAENG)	1886	1,896	Hold	17789	59.7	56.8	59.9	31.6	33.2	31.5	14.4	14.2	14.5	11.8	11.3	11.6
Thermax (THERMA)	2072	1,800	Buy	24689	17.3	26.7	40.0	119.5	77.7	51.8	9.8	11.8	16.4	7.6	9.2	12.7
Kalpataru Power(KALPOW)	400	455	Hold	6189	41.3	25.8	37.8	9.7	15.5	10.6	15.9	15.2	16.7	12.7	9.7	11.8
KEC International (KECIN)	501	550	Buy	12881	21.5	19.9	32.3	23.3	25.1	15.5	19.4	17.3	21.3	16.5	14.7	18.7
Greaves Cotton (GREAVE)	207	150	Hold	4786	0.4	2.4	5.4	462.0	84.6	38.4	6.5	7.2	18.6	3.3	5.1	13.6
Elgi Equipment (ELGEQU)	331	260	Buy	10490	3.2	3.9	6.2	102.3	85.1	53.8	11.7	12.7	18.1	11.8	13.8	18.7
Bharat Electronics (BHAELE)	209	250	Buy	51022	8.5	9.6	11.4	24.7	21.7	18.4	0.0	0.0	0.0	0.0	0.0	0.0
Cochin Shipyards (COCSHI)	342	500	Buy	4651	46.4	44.0	55.6	7.4	7.8	6.2	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	3658	3,960	Buy	19387	67.6	78.1	98.9	54.1	46.8	37.0	27.0	26.5	27.9	21.4	20.6	21.6
Timken India (TIMIND)	1918	2,240	Hold	12275	19.0	30.8	40.0	100.7	62.3	48.0	13.7	19.4	25.1	10.7	15.1	19.6
NRB Bearing (NRBBEA)	163	220	Buy	1588	5.6	8.2	9.8	30.2	20.6	17.3	11.8	15.8	16.8	10.4	13.4	13.9
Action Construction (ACTCON)	223	320	Buy	2520	7.1	9.7	13.9	31.4	23.0	16.0	26.9	22.3	26.2	15.3	14.9	17.9

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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