

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

Q1FY23 Results: Solar reported handsome numbers in Q1FY23.

- Revenue for quarter came in at ₹ 1615.6 crore, up 95.8% YoY & 22.7% QoQ
- EBIDTA margins came in at 17.5% vs. 21.2% YoY & 20% QoQ. EBIDTA came in at ₹ 283 crore, up 62% YoY & 7.7% QoQ
- PAT (post minority interest) was at ₹ 170.2 crore in Q1FY23 vs. ₹ 167.9 crore in Q4FY22 and ₹ 97.5 crore in Q4FY22

What should investors do? Solar is expected to perform well going forward on back of strong demand from Coal and Infra sector along with its foreign subsidiaries.

- We changed our rating from **HOLD** to **BUY** on the stock.

Target Price and Valuation: We value the stock at ₹ 3390, valuing the business at 38x FY24E earnings.

Key triggers for future price performance:

- Better performance from overseas subsidiaries on the back of strong demand and economic activities returning to normal.
- Defence and export segments picking up due to diversified portfolio.

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.



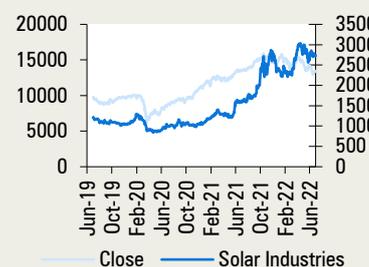
Particulars

Particular	Amount
Market Capitalization	25,790
Total Debt (FY22) (₹ crore)	728
Cash and Inv (FY22) (₹ crore)	99
EV (FY22) (₹ crore)	26,419
52 week H/L (₹) (BSE)	3189/1598
Equity capital (₹ crore)	18
Face value (₹)	2

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	73.2%	73.2%	73.2%	73.2%
FII	5.8%	6.4%	6.3%	6.6%
DII	16.2%	15.4%	15.2%	14.7%
Others	4.9%	5.0%	5.4%	5.5%

Price Chart



Recent event & key risks

- Government emphasising on indigenisation of defence products
- **Key Risk:** i) Further rise in raw material prices ii) Domestic supply of AN improves

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Key Financial Summary

(Year-end March)	FY20	FY21	FY22	5 Year CAGR (FY17-	FY23E	FY24E	2 Year CAGR (FY22-FY24E)
Revenue	2,237.3	2,515.6	3,947.6	20.2	5,082.2	6,087.9	24.2
EBITDA	434.3	514.6	747.3	18.8	1,052.0	1,345.4	34.2
EBITDA margin (%)	19.4	20.5	18.9		20.7	22.1	
Net Profit	267.4	276.4	441.3	18.2	615.3	807.9	35.3
EPS (₹)	29.6	30.5	48.8		68.0	89.3	
P/E (x)	96.4	93.3	58.4		41.9	31.9	
EV/EBITDA (x)	60.5	51.0	35.4		24.9	19.3	
RoCE (%)	17.6	17.6	22.5		29.8	32.4	
RoE (%)	19.2	17.4	23.9		26.6	27.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q1FY23 Results: Strong earnings momentum continues

- Revenue for the quarter came in at ₹ 1615.9 crore, up 95.8% YoY & 22.7% QoQ. Volume growth can be seen in Explosives YoY, volumes rose 12.8% YoY and dipped 3.9% QoQ, whereas realisations jumped 96.8% YoY and 4.6% QoQ. Accessories segment registered an improvement of 19.8% YoY to ₹ 115 crore. Defence segment revenue came in at ₹ 64.3 crore, up 36.9% YoY and dipped 11.5% QoQ. Overseas and Exports segment revenue came in at ₹ 593.2 crore, up 90.2% YoY and 74.7% QoQ.
- Gross margins expanded ~ 40 bps YoY & expanded 550 bps QoQ (Gross margins expanded QoQ due to higher realisation). EBIDTA margins dipped QoQ and YoY and came in at 17.5% vs 20% in Q4FY22 (EBITDA margins dipped QoQ due to higher other expenses). Solar posted an EBIDTA of ₹ 252.4 crore, up 62% YoY & 7.7% QoQ.
- Solar posted a PAT (Post Minority interest) of ₹ 170.2 crore in Q1FY23 vs ₹ 167.9 crore in Q4FY22 & ₹ 97.5 crore in Q1FY22.

Q1FY23 Earnings Conference Call highlights

- Company has posted best ever quarter in terms of revenue. Company has maintained its revenue growth guidance of 30% out of which 15-17% will be volume growth and rest will be value growth. EBITDA margins to be in range of 20-22% in coming quarters mainly on relief in raw material prices.
- Government initiative like Housing for All, Gati Shakti, Atmanirbhar Bharat, indigenisation of defence products and better performance from mining and infra are also expected to boost the company's performance.
- Company is pondering for a strategic investment in North Indian based company to expand its presence in Northern part of India.
- Ammonium Nitrate prices increased by 12% in this quarter but prices are expected to be softer in Q2FY23 by 15%.
- EBITDA margins dip in this quarter mainly due to higher raw material prices and low realization from one of the coal customer. Going forward easing raw material prices will result in less pressure on gross and EBITDA margins. Company also suffered a Forex loss of 28 crore in this quarter.
- Current Order Book stands at ₹ 3850 crore out of which ₹ 538 crore is from defence sector, Revenue from defence is expected to touch ₹ 400 crore mark in FY23. Pinaka test is in final stage and company will update about any order they received.
- On overseas business company has witnessed a growth of 15-18%. South Africa will be profitable by H1FY24. Commercial production in Australia will be started by Q3FY23 and Indonesian unit has started production of detonators and initiating system will be in production by next quarter.
- CAPEX for Q1FY23 stands at ₹ 84 crore and proposed CAPEX for FY23 will be in range of ₹ 400-450 crore out of which around ₹ 160 crore will be in defence segment, ₹ 100 crore will be in overseas segment and rest will be for geographical and product portfolio expansion in India.

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Revenues	1,615.6	825.2	95.8	1,316.9	22.7	Good set of Numbers due to favourable macros
Raw materials costs	1,066.9	469.5	127.3	816.2	30.7	
Employees Cost	75.2	68.0	10.7	88.7	-15.2	
Other Expenses	190.5	113.1	68.5	149.1	27.8	
Total Expenditure	1,332.7	650.5	104.9	1,054.0	26.4	
EBITDA	283.0	174.7	62.0	262.8	7.7	
EBITDA margins (%)	17.5	21.2	-366 bps	20.0	-244 bps	Lower Margings due to higher other expenses
Depreciation	30.5	25.2	21.3	29.6	3.1	
EBIT	252.4	149.5	68.8	233.2	8.3	
Interest	14.3	10.3	39.1	14.8	-3.5	
Other Income	8.6	0.8	972.5	0.8	1,014.3	
Extra Ordinary Item	0.0	0.0		0.0	0.0	
PBT	246.7	140.1	76.1	219.2	12.6	
Total Tax	64.1	39.2	63.4	44.4	44.4	
PAT(after MI)	170.2	97.5	74.6	167.9	1.4	

Key Metrics	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	
Ind. explosives volume (MT)	1,14,851	1,01,782	12.8	1,19,536	-3.9	Strong volumes witnessed YoY
Realisation (₹/MT)	71,778	41,161	74.4	65,948	8.8	Realisation grew 74.4% YoY and 8.8% QoQ
Value (₹ crore)	824	419	96.8	788	4.6	
Initiating Systems (₹ crore)	115	96	19.8	117	-1.7	Better than expected performance from initiating systems
Export & Overseas (₹ crore)	593	312	90.2	339	74.7	Strong performance across geographies
Defence (₹ crore)	64	47	36.9	72	-11.5	Multi Mode Hand grenade propelled defence revenue

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21	FY22	FY23E			FY24E		
	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	2,515.6	3,947.6	4,860.0	5,082.2	4.6	5,545.2	6,087.9	9.8
EBITDA	514.6	747.3	928.0	1,052.0	13.4	1,136.8	1,345.4	18.4
EBITDA Margin (%)	20.5	18.9	19.1	20.7	160 bps	20.5	22.1	160 bps
PAT	276.4	441.3	524.0	615.3	17.4	656.5	807.9	23.1
EPS (₹)	30.5	48.8	57.9	68.0	17.4	72.5	89.3	23.1

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Revenue	2,516	3,948	5,082	6,088
Growth YoY (%)		56.9	28.7	19.8
Raw Material Expenses	1,347	2,327	2,897	3,409
COGS	53.5	59.0	57.0	56.0
Employee Expenses	231	290	412	481
Other Expenses	424	583	722	852
Total Operating Expenditure	2,001	3,200	4,030	4,742
Operating Profit (EBITDA)	515	747	1052	1345
Growth YoY (%)		45.2	40.8	27.9
Interest	45	50	46	41
Other Income	21	20	30	35
PBDT	491	717	1,036	1,339
Depreciation	94	109	126	144
PBT after Exceptional Items	397	607	910	1,195
Total Tax	109	152	241	317
PAT before MI	288	455	669	878
Minority Interest	12	14	54	70
PAT	276	441	615	808
Growth YoY (%)		59.7	39.4	31.3
EPS	30.5	49	68	89

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	276	441	615	808
Add: Depreciation	94	109	126	144
Add: Interest Paid	45	50	46	41
Cash Flow before WC changes	415	601	787	994
(Increase)/Decrease in inventory	(110)	(278)	134	(116)
(Increase)/Decrease in debtors	(85)	(86)	(294)	(165)
(Increase)/Decrease Loan & Advances	2	(4)	4	(1)
(Increase)/Decrease in CA	(12)	(212)	182	(22)
Net Increase in Current Assets	(181)	(626)	26	(304)
Net Increase in Current Liabilities	212	241	(58)	138
Net CF from operating activities	446	216	755	827
(Purchase)/Sale of Fixed Assets	(210)	(325)	(400)	(350)
Inc / (Dec) in Deferred Tax Liability	12	21	-	-
Net CF from Investing Activities	(203)	(231)	(340)	(347)
Proceeds/(Repay) Secured Loan	189	3	(153)	(25)
Proceeds/(Repay) Unsecured Loan	(163)	81	(25)	(25)
(Payment) of Dividend	(54)	(68)	(72)	(90)
Interest Paid	(45)	(50)	(46)	(41)
Net CF from Financing Activities	(97)	(151)	(372)	(257)
Net Cash flow	146	(166)	43	224
Cash and Cash Eq. (beginning)	128	274	108	151
Cash and Cash Equivalent (end)	274	108	151	375

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	18.1	18.1	18.1	18.1
Reserve and Surplus	1,572	1,829	2,297	2,940
Total Shareholders funds	1,590	1,847	2,315	2,958
Secured Loan	451	453	300	275
Unsecured Loan	194	275	250	225
Total Debt	645	728	550	500
Deferred Tax Liability	116	137	137	137
Minority Interest	63	76	79	82
Total Liabilities	2,509	2,922	3,215	3,810
Gross Block	1,934	2,234	2,609	2,959
Accumulated Depreciation	476	585	710	855
Net Block	1,253	1,457	1,899	2,104
Capital WIP	282	221	100	100
Total Fixed Assets	1,535	1,678	1,999	2,204
Inventory	440	719	585	701
Debtors	455	541	835	1,001
Loans and Advances	4	8	4	5
Other Current Assets	82	294	112	134
Cash	181	99	151	375
Total Current Assets	1,226	1,769	1,795	2,323
Creditors	286	465	348	417
Provisions	228	290	348	417
Total Current Liabilities	532	773	714	852
Net Current Assets	694	996	1,081	1,471
Total Assets	2498	2922	3215	3810

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
Per Share Data				
Reported EPS	30.5	48.8	68.0	89.3
Cash EPS	40.9	60.8	81.9	105.2
BV per share	175.7	204.2	255.9	326.9
Dividend per share	6.0	6.0	7.5	8.0
Cash Per Share	52.6	64.6	78.5	94.5
Operating Ratios (%)				
EBITDA Margin	20.5	18.9	20.7	22.1
EBIT / Net Sales	16.7	16.2	18.2	19.7
PAT / Net Sales	11.0	11.2	12.1	13.3
Inventory days	63.9	66.5	42.0	42.0
Debtor days	66.1	50.0	60.0	60.0
Creditor days	41.5	43.0	25.0	25.0
Return Ratios (%)				
RoE	17.4	23.9	26.6	27.3
RoCE	17.6	22.5	29.8	32.4
RoIC	22.1	26.2	34.0	38.8
Valuation Ratios (x)				
P/E	93.3	58.4	41.9	31.9
EV / EBITDA	51.0	35.4	24.9	19.3
EV / Net Sales	10.4	6.7	5.2	4.3
Market Cap / Sales	10.3	6.5	5.1	4.2
Price to Book Value	16.2	14.0	11.1	8.7
Solvency Ratios				
Debt / EBITDA	1.3	1.0	0.5	0.4
Debt / Equity	0.4	0.4	0.2	0.2
Current Ratio	1.8	2.0	2.2	2.2
Quick Ratio	1.0	1.1	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		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1747	1,930	Buy	245139	50.2	65.5	72.9	34.8	26.7	23.9	8.0	10.2	11.1	10.8	12.9	13.2
Siemens Ltd	2678	2,900	Buy	95369	29.5	36.6	48.2	90.8	73.1	55.6	13.9	15.7	18.4	10.1	11.6	13.7
AIA Engineering (AIAENG)	2322	2,570	Buy	21901	64.6	79.6	85.7	36.0	29.2	27.1	16.5	17.8	17.0	13.2	14.2	13.6
Thermax (THERMA)	2986	2,390	Buy	35580	26.2	42.4	53.1	113.9	70.4	56.2	11.3	16.7	18.7	9.0	13.0	14.4
KEC International (KECIN)	460	381	Hold	11827	12.7	13.0	25.4	36.2	35.5	18.1	12.3	12.0	17.2	10.7	9.2	15.8
Greaves Cotton (GREAVE)	161	179	Buy	3722	0.7	2.6	3.3	227.5	61.1	48.8	2.5	8.9	10.2	1.3	6.3	7.3
Elgi Equipment (ELGEQU)	361	390	Buy	11440	5.7	6.6	8.7	63.2	54.7	41.5	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	266	315	Buy	64813	9.6	11.3	12.6	27.6	23.6	21.1	26.2	28.5	28.6	19.6	21.3	21.4
Cochin Shipyard (COCSHI)	326	340	Hold	4288	42.9	38.6	42.3	7.6	8.4	7.7	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	4062	3,720	Buy	20082	77.0	89.6	103.5	52.8	45.3	39.2	26.0	26.5	27.1	20.6	20.0	20.1
Timken India (TIMIND)	2888	2,810	Buy	21723	43.5	54.8	62.5	93.4	74.1	65.0	25.3	32.3	36.8	19.7	24.9	28.4
NRB Bearing (NRBBEA)	138	220	Buy	1338	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	225	230	Buy	2679	9.8	11.5	13.6	23.0	19.6	16.5	22.5	20.9	21.3	15.1	14.5	14.7
Data Patterns (DATPAT)	731	870	Buy	3793	18.1	21.7	27.2	40.4	33.7	26.9	23.8	24.4	25.8	16.4	18.1	19.1
HAL (HINAER)	1877	2,200	Buy	62765	151.9	123.6	137.4	12.4	15.2	13.7	27.4	29.7	30.5	26.3	22.5	23.2

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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