

## 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 ~330,000 MT/year. It holds reasonable market share in India of ~30%
- 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

**Q2FY23 Results:** Solar reported handsome numbers in Q2FY23.

- Revenue for the quarter came in at ₹ 1566.6 crore, up 98.9% YoY
- EBITDA margins came in at 19.1% vs. 16.7% YoY & 17.5% QoQ. EBITDA came in at ₹ 299 crore, up 126.9% YoY & 7.7% QoQ
- PAT (post minority interest) was at ₹ 176.5 crore in Q2FY23 vs. ₹ 139.2 crore in Q2FY22 and ₹ 170.2 crore in Q1FY23

**What should investors do?** SIL is expected to perform well, going forward, on the back of strong demand from coal and infra sector along with its foreign subsidiaries.

- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** We roll over our numbers to FY25E and value the stock at ₹ 4700, valuing the business at 37x FY25E earnings.

**Key triggers for future price performance:**

- Better performance from overseas subsidiaries on the back of strong demand, Revenue increase from non-CIL customers in coal segment
- Defence and export segments picking up due to diversified portfolio

**Alternate Stock Idea:** We also like Anup Engineering in our capital goods coverage.

- Anup Engineering is one of the leading process equipment manufactures with special focus on heat exchangers
- BUY with a target price of ₹ 1080 i.e. 15x P/E on FY24E EPS



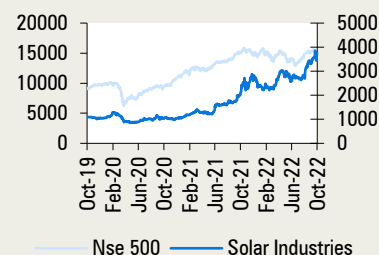
### Particulars

Particular	Amount
Market Capitalization	35,327
Total Debt (FY22) (₹ crore)	728
Cash and Inv (FY22) (₹ crore)	99
EV (FY22) (₹ crore)	35,957
52 week H/L (₹) (BSE)	3189 / 1598
Equity capital (₹ crore)	18
Face value (₹)	2

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	73.2%	73.2%	73.2%	73.2%
FII	6.4%	6.3%	6.6%	6.6%
DII	15.4%	15.2%	14.7%	14.6%
Others	5.0%	5.4%	5.5%	5.6%

### Price Chart



### Recent event & key risks

- Increasing defence product portfolio
- **Key Risk:** i) Slowdown in major economies ii) Domestic supply of AN improves

### Research Analyst

Chirag Shah  
shah.chirag@icicisecurities.com

Yash Panwar  
yash.panwar@icicisecurities.com

### Key Financial Summary

(Year-end March)	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	FY25E	3 Year CAGR (FY22-FY25E)
Revenue	2,237.3	2,515.6	3,947.6	20.2	6,076.3	7,281.7	8,835.8	30.5
EBITDA	434.3	514.6	747.3	18.8	1,166.7	1,485.5	1,873.2	35.4
EBITDA margin (%)	19.4	20.5	18.9		19.2	20.4	21.2	
Net Profit	267.4	276.4	441.3	18.2	692.8	902.6	1,150.1	37.2
EPS (₹)	29.6	30.5	48.8		76.6	99.7	127.1	
P/E (x)	136.0	131.6	82.4		52.5	40.3	127.1	
EV/EBITDA (x)	84.9	71.6	49.5		31.6	24.6	31.6	
RoCE (%)	17.6	17.6	22.5		32.5	34.6	35.2	
RoE (%)	19.2	17.4	23.9		29.0	28.8	28.1	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter

### Q2FY23 Results: Strong earnings momentum continues

- Revenue for the quarter came in at ₹ 1566.6 crore, up 98.9% YoY. Volume growth can be seen in explosives YoY. Volumes increased 9.1% YoY whereas realisations jumped 73.5% YoY. Accessories segment registered an improvement of 50% YoY to ₹ 126 crore. Defence segment revenue came in at ₹ 111 crore, up 94.2% YoY. Overseas and exports segment revenue came in at ₹ 739 crore, up 106.6% YoY
- Gross margins contracted ~230 bps YoY and expanded 640 bps QoQ (gross margins expanded QoQ due to higher realisation & stable raw material cost). EBITDA margins increased QoQ and YoY and came in at 19.1% vs. 16.7% in Q2FY22 (EBITDA margins increased on account of positive operating leverage led by strong revenue growth). SIL posted an EBITDA of ₹ 299 crore, up 126% YoY
- SIL posted PAT (post minority interest) of ₹ 176.5 crore in Q2FY23 vs. ₹ 73.9 crore in Q2FY22 and ₹ 170.2 crore in Q1FY23

### Q2FY23 Earnings Conference Call highlights

- The company has increased its revenue growth guidance to 45-50% out of which 15-17% will be volume growth and rest will be value growth. EBITDA margins are expected to be in the range of 18.5-20% in coming quarters mainly on relief in raw material prices
- Revenue from non CIL segment is increasing and Coal India revenue proportion is expected to be in the range of 10-15%
- Government initiatives 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
- Ammonium nitrate prices remained flat QoQ but prices are expected to be soften by FY23 end by 10-15%
- EBITDA margins increased this quarter mainly due to lag in passing of raw material price hike to its customers. Apart from this, revenues from exports also increased, which is generally a high margin business. Going forward, easing raw material prices will result in less pressure on gross and EBITDA margins. SIL also suffered a forex loss of ₹ 35 crore in this quarter
- Current order book is at ₹ 4008 crore out of which ₹ 885 crore is from the defence sector, Revenue from defence is expected to touch ₹ 750 crore mark in FY24. Pinaka RFP has been bid and three more RFP are expected in the coming quarter. SIL has added new products in its defence portfolio that included ammunition for drones, rockets and warheads
- On overseas and exports business, the company witnessed growth of 46-47%. South Africa will be profitable by H1FY24. Commercial production in Australia will be started by FY23 end and Indonesian unit has started production of detonators while initiating system will be in production by the next quarter
- Working capital days were at 87 days
- Capex for H1FY23 was at ₹ 207 crore and proposed capex for FY23 will be in the range of ₹ 400-450 crore out of which around ₹ 160 crore will be in the defence segment, ₹ 100 crore will be in the overseas segment and the rest will be for geographical and product portfolio expansion in India. Capex for FY24 will be in the range of ₹ 450-500 crore

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Revenues	1,566.6	787.7	98.9	1,615.6	-3.0	Good set of Numbers despite to unfavourable macros
Raw materials costs	933.3	441.9	111.2	1,066.9	-12.5	
Employees Cost	86.5	65.5	32.0	75.2	15.0	
Other Expenses	247.8	148.5	66.9	190.5	30.1	
Total Expenditure	1,267.6	655.9	93.3	1,332.7	-4.9	
EBITDA	299.0	131.8	126.9	283.0	5.7	
EBITDA margins (%)	19.1	16.7	236 bps	17.5	157 bps	Higher Margings due to low passing of raw material price increase
Depreciation	30.4	27.3	11.4	30.5	-0.6	
EBIT	268.6	104.5	157.1	252.4	6.4	
Interest	19.4	11.8	64.5	14.3	36.0	
Other Income	4.4	11.0	-60.4	8.6	-49.2	
Extra Ordinary Item	0.0	0.0		0.0	0.0	
PBT	253.6	103.7	144.5	246.7	2.8	
Total Tax	64.9	29.0	124.1	64.1	1.2	
PAT(after MI)	176.5	73.8	139.2	170.2	3.7	
<b>Key Metrics</b>	<b>Q2FY23</b>	<b>Q2FY22</b>	<b>YoY (%)</b>	<b>Q1FY23</b>	<b>QoQ (%)</b>	
Ind. explosives volume (MT)	87,661	80,377	9.1	1,14,851	-23.7	Strong volumes witnessed YoY
Realisation (₹/MT)	70,900	40,874	73.5	71,778	-1.2	Realisation grew 73.5% YoY
Value (₹ crore)	622	329	89.2	824	-24.6	
Initiating Systems (₹ crore)	126	84	50.0	115	9.6	Better than expected performance from initiating systems
Export & Overseas (₹ crore)	739	358	106.6	493	49.8	Strong performance across geographies
Defence (₹ crore)	111	57	94.2	64	73.6	Strong Order Book helped in better execution

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21	FY22	FY23E			FY24E		FY25E	
	Actual	Actual	Old	New	% Change	Old	New	% Change	New
Revenue	2,515.6	3,947.6	4,860.0	6,076.3	25.0	5,545.2	7,281.7	31.3	8835.8
EBITDA	514.6	747.3	928.0	1,166.7	25.7	1,136.8	1,485.5	30.7	1873.2
EBITDA Margin (%)	20.5	18.9	19.1	19.2	10 bps	20.5	20.4	-10 bps	21.2
PAT	276.4	441.3	524.0	692.8	32.2	656.5	902.6	37.5	1150.1
EPS (₹)	30.5	48.8	57.9	76.6	32.2	72.5	99.7	37.6	127.1

Source: ICICI Direct Research

## Financial Summary

### Exhibit 3: Profit and loss statement

	₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	2,516	3,948	6,076	7,282	8,836
Growth YoY (%)		56.9	53.9	19.8	21.3
Raw Material Expenses	1,347	2,327	3,524	4,151	4,948
COGS	53.5	59.0	58.0	57.0	56.0
Employee Expenses	231	290	504	604	725
Other Expenses	424	583	881	1,041	1,290
Total Operating Expenditure	2,001	3,200	4,910	5,796	6,963
Operating Profit (EBITDA)	515	747	1,167	1,485	1,873
Growth YoY (%)		45.2	56.1	27.3	26.1
Interest	45	50	46	41	41
Other Income	21	20	30	35	35
PBDT	491	717	1,150	1,479	1,867
Depreciation	94	109	126	144	166
PBT after Exceptional Items	397	607	1,025	1,335	1,701
Total Tax	109	152	272	354	451
PAT before MI	288	455	753	981	1,250
Minority Interest	12	14	60	78	100
PAT	276	441	693	903	1,150
Growth YoY (%)		59.7	57.0	30.3	27.4
EPS	30.5	49	77	100	127

Source: Company, ICICI Direct Research

### Exhibit 4: Cash flow statement

	₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Profit after Tax	276	441	693	903	1,150
Add: Depreciation	94	109	126	144	166
Add: Interest Paid	45	50	46	41	41
Cash Flow before WC changes	415	601	865	1,088	1,357
(Increase)/Decrease in inventory	(110)	(278)	20	(139)	(203)
(Increase)/Decrease in debtors	(85)	(86)	(458)	(198)	(255)
(Increase)/Decrease Loan & Advances	2	(4)	3	(1)	(1)
(Increase)/Decrease in CA	(12)	(212)	160	(27)	(34)
Net Increase in Current Assets	(181)	(626)	(274)	(364)	(494)
Net Increase in Current Liabilities	212	241	78	165	213
Net CF from operating activities	446	216	668	889	1,076
(Purchase)/Sale of Fixed Assets	(210)	(325)	(400)	(400)	(450)
Inc / (Dec) in Deferred Tax Liability	12	21	-	-	-
Net CF from Investing Activities	(203)	(231)	(340)	(397)	(445)
Proceeds/(Repay) Secured Loan	189	3	(153)	(25)	-
Proceeds/(Repay) Unsecured Loan	(163)	81	(25)	(25)	-
(Payment) of Dividend	(54)	(68)	(72)	(90)	(109)
Interest Paid	(45)	(50)	(46)	(41)	(41)
Net CF from Financing Activities	(97)	(151)	(372)	(257)	(226)
Net Cash flow	146	(166)	(44)	235	406
Cash and Cash Eq. (beginning)	128	274	108	64	300
Cash and Cash Equivalent (end)	274	108	64	300	706

Source: Company, ICICI Direct Research

### Exhibit 5: Balance Sheet

	₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Equity Capital	18.1	18.1	18.1	18.1	18.1
Reserve and Surplus	1,572	1,829	2,375	3,112	4,077.4
Total Shareholders funds	1,590	1,847	2,393	3,130	4,095.5
Secured Loan	451	453	300	275	275.0
Unsecured Loan	194	275	250	225	225.0
Total Debt	645	728	550	500	500.0
Deferred Tax Liability	116	137	137	137	137.1
Minority Interest	63	76	79	82	87.2
Total Liabilities	2,509	2,922	3,292	3,983	4,953
Gross Block	1,934	2,234	2,609	3,009	3,459.3
Accumulated Depreciation	476	585	710	855	1,021.1
Net Block	1,253	1,457	1,899	2,154	2,438.2
Capital WIP	282	221	100	100	100.0
Total Fixed Assets	1,535	1,678	1,999	2,254	2,538.2
Inventory	440	719	699	838	1,040.9
Debtors	455	541	999	1,197	1,452.5
Loans and Advances	4	8	5	6	7.1
Other Current Assets	82	294	134	160	194.4
Cash	181	99	64	300	705.6
Total Current Assets	1,226	1,769	2,009	2,609	3,508.2
Creditors	286	465	416	499	605.2
Provisions	228	290	416	499	605.2
Total Current Liabilities	532	773	850	1,015	1,228.2
Net Current Assets	694	996	1,159	1,593	2,280.0
Total Assets	2,498	2,922	3,292	3,983	4,954

Source: Company, ICICI Direct Research

### Exhibit 6: Key ratios

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
<b>Per Share Data</b>					
Reported EPS	30.5	48.8	76.6	99.7	127.1
Cash EPS	40.9	60.8	90.4	115.7	145.5
BV per share	175.7	204.2	264.4	345.9	452.6
Dividend per share	6.0	6.0	7.5	8.0	10.0
Cash Per Share	52.6	64.6	78.5	94.5	112.8
<b>Operating Ratios (%)</b>					
EBITDA Margin	20.5	18.9	19.2	20.4	21.2
EBIT / Net Sales	16.7	16.2	17.1	18.4	19.3
PAT / Net Sales	11.0	11.2	11.4	12.4	13.0
Inventory days	63.9	66.5	42.0	42.0	43.0
Debtor days	66.1	50.0	60.0	60.0	60.0
Creditor days	41.5	43.0	25.0	25.0	25.0
<b>Return Ratios (%)</b>					
RoE	17.4	23.9	29.0	28.8	28.1
RoCE	17.6	22.5	32.5	34.6	35.2
RoIC	22.1	26.2	36.1	40.1	43.7
<b>Valuation Ratios (x)</b>					
P/E	131.0	82.0	52.2	40.1	31.5
EV / EBITDA	71.2	49.3	31.4	24.5	19.2
EV / Net Sales	14.6	9.3	6.0	5.0	4.1
Market Cap / Sales	14.4	9.2	6.0	5.0	4.1
Price to Book Value	22.8	19.6	15.1	11.6	8.8
<b>Solvency Ratios</b>					
Debt / EBITDA	1.3	1.0	0.5	0.3	0.3
Debt / Equity	0.4	0.4	0.2	0.2	0.1
Current Ratio	1.8	2.0	2.2	2.2	2.2
Quick Ratio	1.0	1.1	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		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	2,015	2,355	Buy	282745	56.8	66.1	76.7	35.5	30.5	26.3	8.9	9.3	11.6	12.1	12.9	13.6
Siemens Ltd	2,980	3,660	Buy	106124	29.5	36.7	50.5	101.1	81.1	59.0	13.9	15.7	19.2	10.1	11.6	14.2
AIA Engineering (AIAENG)	2,735	3,011	Buy	25797	64.6	79.8	86.0	42.3	34.3	31.8	16.5	17.9	17.1	13.2	14.3	13.6
Thermax (THERMA)	2,317	2,405	Buy	27609	26.2	38.7	53.4	88.4	59.9	43.4	11.3	15.4	18.7	8.9	12.0	14.6
KEC International (KECIN)	430	542	Buy	11055	12.9	16.0	31.9	33.3	26.9	13.5	11.9	13.9	20.3	10.6	11.1	18.6
Greaves Cotton (GREAVE)	150	209	Buy	3468	0.7	3.5	3.6	211.9	42.6	42.0	2.5	9.4	10.7	1.3	6.7	7.7
Elgi Equipment (ELGEQU)	497	474	Hold	15750	5.7	6.6	9.1	87.0	75.4	54.5	18.9	17.8	21.0	18.7	18.5	21.1
Bharat Electronics (BHAELE)	109	135	Buy	79677	3.2	3.8	4.5	34.1	28.7	24.2	26.1	28.4	30.0	19.5	21.2	22.4
Cochin Shipyard (COCSHI)	604	445	Buy	7938	42.9	38.6	42.3	14.1	15.6	14.3	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	4,455	5,215	Buy	22025	77.0	108.7	130.3	57.9	41.0	34.2	26.0	30.7	31.3	20.6	23.3	23.4
Timken India (TIMIND)	2,754	3,561	Buy	20715	43.5	61.3	71.2	63.3	44.9	38.7	25.3	36.2	42.0	19.7	27.9	32.2
NRB Bearing (NRBBEA)	173	220	Buy	1677	7.8	9.2	12.1	22.2	18.8	14.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	329	365	Buy	3918	8.8	13.9	18.2	37.4	23.7	18.1	23.0	24.0	25.8	13.9	17.1	18.3
Data Patterns (DATPAT)	1438	1,280	Buy	7461	18.1	22.2	30.4	79.4	64.8	47.2	23.8	24.9	28.1	16.4	18.4	20.9
HAL (HINAER)	2,559	2,860	Buy	85570	151.9	130.9	143.1	16.8	19.5	17.9	27.4	30.6	30.8	26.3	23.2	23.4
ABB (ABB)	3,220	3,275	Buy	68234	25.5	38.9	43.7	126.4	82.8	73.7	45.0	49.2	64.9	11.2	13.0	17.6
Ador Welding (ADOWEL)	890	890	Buy	1210	33.2	37.5	49.3	26.8	23.7	18.1	19.9	23.8	26.8	13.6	17.1	19.3
Bharat Dynamics (BHADYN)	977	1,068	Buy	17907	27.3	33.0	42.7	32.6	27.0	20.9	24.6	24.7	27.9	17.3	17.7	20.0
Mazagon Dock (MAZDOC)	781	562	Buy	15752	30.3	31.2	40.1	29.4	28.6	22.2	20.0	18.1	20.9	16.1	14.6	16.6

Source: Bloomberg, ICICI Direct Research

## RATING RATIONALE

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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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