

12 March 2024

India | Equity Research | Company Update

Solar Industries

Defence

Stronger defence proportion to arm higher margins

Solar Industries (SOIL) has received an export order – worth INR 4.45bn to be executed over two years – for products to be used in defence application. Key points: 1) Second major defence export order in Q4FY24. 2) We see the defence order book at ~INR 24bn with the proportion of exports at 60-65%, as on date. 3) Duration of execution of exports contract is 2-3 years. We estimate the revenue from defence sector to be almost 18-20% of overall FY25 onwards (FY23: 5.7%). Hence, EBITDA margin may also improve to above 25% by FY26E. Further, we expect SOIL to win the Pinaka order in the near term. Baking in improved margins and the potential for further defence orders, we raise our valuation multiple to 55x (earlier 50x); accordingly, our TP works out to INR 9,050 (earlier INR 8,130). Retain **BUY**.

Higher defence execution might lead to margin improvement

Close on the heels of the INR 9.94bn export order received in Jan'24, SOIL has received another order worth INR 4.45bn. We believe that the recent influx of export defence orders is significant – these are of short duration (2-3 years) compared to domestic defence orders. Furthermore, these might be repeated and open up the export market. In our view, SOIL's defence order book is likely to be at ~INR 24bn [implying 5.8x book/bill (ttm)], of which 60-65% is likely to be exports. In our view, the proportion of defence in the overall revenue mix is likely to be 18-20% FY25 onwards (last 5 years: 5-6%) and shall increase further, if export orders continue. Higher proportion of revenue from defence will also likely help maintain blended EBITDA margin above 25% and lend stability, as the bearing on explosives' prices is likely to reduce.

Several sweeteners in store

We stay positive on SOIL stock as: 1) higher overburden removal at Coal India (as it focuses on production growth) is likely to keep volume growth at 15% p.a.; 2) government's focus on infrastructure and the low price of explosives is likely to result in better demand from construction and infrastructure segment; 3) foray into new geographies – Kazakhstan (mining) and Saudi Arabia (construction) shall keep the performance of international subsidiaries robust; and 4) we expect the Pinaka order to be awarded soon, resulting in higher defence order book and opening up further export opportunities.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	69,225	61,558	78,652	90,958
EBITDA	12,889	14,234	19,610	22,861
EBITDA Margin (%)	18.6	23.1	24.9	25.1
Net Profit	7,575	8,761	12,714	14,890
EPS (INR)	83.7	96.8	140.5	164.5
EPS % Chg YoY	78.0	10.9	44.0	17.1
P/E (x)	86.2	77.7	54.0	46.1
EV/EBITDA (x)	55.0	49.5	35.7	30.2
RoCE (%)	27.2	24.7	28.0	26.6
RoE (%)	35.5	31.5	34.2	30.5

Amit Dixit

amit.dixit@icicisecurities.com
+91 22 6807 7289

Mohit Lohia

mohit.lohia@icicisecurities.com

Prithish Urumkar

Prithish.urumkar@icicisecurities.com

Market Data

Market Cap (INR)	700bn
Market Cap (USD)	8,457mn
Bloomberg Code	SOIL IN
Reuters Code	SLIN.BO
52-week Range (INR)	8,499 /3,453
Free Float (%)	27.0
ADTV-3M (mn) (USD)	10.3

Price Performance (%)	3m	6m	12m
Absolute	17.1	65.5	105.1
Relative to Sensex	11.8	55.1	83.3

Previous Reports

09-02-2024: [Q3FY24 results review](#)

18-01-2024: [Company Update](#)

Outlook: Turning a new leaf

We believe that investors who are accustomed to seeing SOIL as an explosives company need to see the company with a fresh view, as the proportion of revenue from defence is expected to rise to a meaningful 18-20% from FY25 (from a mere 5-6% over past five years). Among segments, defence is likely to be the second-largest, after international business from FY25. Besides, margins are likely to be propelled even higher from current levels to over 25%. We raise our valuation multiple by 10% to 55x (from 50x) given the possibility of further export orders and improvement in overall margins. Our revised TP works out to INR 9,050 (earlier INR 8,130). Maintain **BUY**.

Key Risks

- Delay in Award of Pinaka order
- Further fall in Ammonium nitrate price leading to negative price-cost spread
- Slow traction in construction and infrastructure segment

Exhibit 1: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	73.2	73.2	73.2
Institutional investors	20.8	21.1	20.9
MFs and others	14.7	14.9	14.5
FIs/Banks	0.0	0.0	0.5
FIIIs	6.1	6.2	5.9
Others	6.0	5.7	5.9

Source: Bloomberg

Exhibit 2: Price chart



Source: Bloomberg

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	69,225	61,558	78,652	90,958
Operating Expenses	12,912	12,853	13,744	14,451
EBITDA	12,889	14,234	19,610	22,861
EBITDA Margin (%)	18.6	23.1	24.9	25.1
Depreciation & Amortization	1,282	1,383	1,478	1,644
EBIT	11,607	12,851	18,133	21,217
Interest expenditure	-	-	-	-
Other Non-operating Income	315	370	379	388
Recurring PBT	11,019	12,170	17,508	20,644
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,904	3,168	4,545	5,468
PAT	8,114	9,002	12,963	15,176
Less: Minority Interest	540	241	249	286
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	8,114	9,002	12,963	15,176
Net Income (Adjusted)	7,575	8,761	12,714	14,890

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	25,144	23,650	32,436	42,725
of which cash & cash eqv.	2,601	3,913	8,154	17,582
Total Current Liabilities & Provisions	7,244	6,324	7,847	8,540
Net Current Assets	17,899	17,327	24,588	34,186
Investments	985	985	985	985
Net Fixed Assets	16,622	21,238	26,261	31,117
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,794	4,294	4,294	4,294
Total Intangible Assets	107	107	107	107
Other assets	2,047	2,047	2,047	2,047
Deferred Tax assets	1,275	1,275	1,275	1,275
Total Assets	41,729	47,273	59,557	74,011
Liabilities				
Borrowings	12,633	9,853	9,853	9,853
Deferred Tax Liability	1,589	1,589	1,589	1,589
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	181	181	181	181
Reserves & Surplus	25,922	34,005	46,040	60,207
Total Net Worth	26,103	34,186	46,221	60,388
Minority Interest	1,404	1,645	1,893	2,179
Total Liabilities	41,729	47,273	59,557	74,011

Source Company data, I-Sec research

Exhibit 5: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sep-23	Dec-23
Net Sales	19,285	16,822	13,475	14,291
% growth (YOY)	46.5	4.1	(14.0)	(21.1)
EBITDA	3,575	3,231	3,362	3,562
Margin %	18.5	19.2	24.9	24.9
Other Income	113	82	77	109
Extraordinaries	-	-	-	-
Adjusted Net Profit	2,061	1,975	2,009	1,973

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	6,565	12,951	12,045	17,223
Working Capital Changes	(2,357)	1,885	(3,021)	(170)
Capital Commitments	(5,251)	(7,500)	(6,500)	(6,500)
Free Cashflow	1,314	5,451	5,545	10,723
Other investing cashflow	61	370	379	388
Cashflow from Investing Activities	(5,190)	(7,130)	(6,121)	(6,112)
Issue of Share Capital	-	-	-	-
Interest Cost	(866)	(1,051)	(1,004)	(961)
Inc (Dec) in Borrowings	2,787	(2,779)	-	-
Dividend paid	-	-	-	-
Others	(740)	(679)	(679)	(723)
Cash flow from Financing Activities	1,182	(4,509)	(1,683)	(1,684)
Chg. in Cash & Bank balance	2,557	1,313	4,241	9,427
Closing cash & balance	3,544	3,913	8,154	17,582

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	89.7	99.5	143.3	167.7
Adjusted EPS (Diluted)	83.7	96.8	140.5	164.5
Cash EPS	97.9	112.1	156.8	182.7
Dividend per share (DPS)	7.5	7.5	7.5	8.0
Book Value per share (BV)	288.5	377.8	510.8	667.3
Dividend Payout (%)	8.4	7.5	5.2	4.8
Growth (%)				
Net Sales	75.4	(11.1)	27.8	15.6
EBITDA	72.5	10.4	37.8	16.6
EPS (INR)	78.0	10.9	44.0	17.1
Valuation Ratios (x)				
P/E	86.2	77.7	54.0	46.1
P/CEPS	79.0	69.0	49.3	42.3
P/BV	26.8	20.5	15.1	11.6
EV / EBITDA	55.0	49.5	35.7	30.2
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	37.3	44.0	42.4	41.0
EBITDA Margins (%)	18.6	23.1	24.9	25.1
Effective Tax Rate (%)	26.4	26.0	26.0	26.5
Net Profit Margins (%)	11.7	14.6	16.5	16.7
Net Debt / Equity (x)	0.3	0.1	0.0	(0.1)
Net Debt / EBITDA (x)	0.7	0.3	0.0	(0.4)
Fixed Asset Turnover (x)	3.4	2.5	2.6	2.5
Inventory Turnover Days	90	57	56	46
Receivables Days	70	53	55	56
Payables Days	-	-	-	-
Profitability Ratios				
RoCE (%)	27.2	24.7	28.0	26.6
RoE (%)	35.5	31.5	34.2	30.5
RoIC (%)	29.3	27.0	31.9	32.6

Source Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Amit Dixit, PGDM, B.Tech; Mohit Lohia, CA; Pritish Urumkar, MBATech (Finance); authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
