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India | Equity Research | Company update

Solar Industries

Defence

Pinaka in the kitty

The Ministry of Defence has inked a contract with Economic Explosive Limited (EEL)- 100% subsidiary of Solar Industries (SOIL) and Munitions India Limited (MIL) for procurement of Area Denial Munition (ADM) Type-1 (DPICM) and High Explosive Pre Fragmented (HEPF) Mk-1 (Enhanced) rockets, respectively, for Pinaka Multiple Launch Rocket System (MLRS) at a total cost of INR 101.4bn ([Link](#)). The development comes after a long wait but has far-reaching benefits as it opens up export markets. Besides, SOIL is likely to participate in other variants, including Enhanced range and Guided Pinaka. We believe it could also trigger re-rating in the stock. We maintain **BUY** on SOIL with an unchanged TP of INR 13,720 on 60x FY27E EPS.

Pinaka order signed- A major relief

In our view, the signing of Pinaka order comes as a major relief for investors of SOIL. Key points: 1) Scope of supply is for two variants of rockets-ADM Type-1 and HEPF Mk-1 (Enhanced); 2) SOIL's share in the order is INR 60.8bn- making it the largest order in its history; and 3) time period of supply is 8-15 years. However, 86% of the contract is to be executed within 10 years. The value of the contract is higher than our initial estimate of INR 48bn for the two variants. In our view, this development has following adjacencies: 1) Opens the doors for export market; and 2) paves the way for SOIL's participation in the development of Enhanced range and Guided Pinaka in future. We expect the company to start recording revenue FY26 onwards, providing further boost to its defence earnings and overall margins.

Deepening footprints in defence

With Pinaka order, SOIL's defence orderbook is almost ~INR 110bn. While Pinaka is expected to be executed over 8 to 15 years, we believe export orders have higher impact on revenue with duration ranging from 3 to 4 years. In near term, we believe replenishment demand for ammunition is likely to be beneficial for SOIL. The company has recently executed MoU with the Government of Maharashtra for setting up an Anchor Mega Defence & Aerospace project in Nagpur at an investment of INR 127bn. We believe the revenue potential of such a project could be INR 250bn p.a., placing SOIL as one of the top players in defence ecosystem in India.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	60,695	73,011	93,945	1,11,611
EBITDA	13,692	19,398	26,039	31,116
EBITDA Margin (%)	22.6	26.6	27.7	27.9
Net Profit	8,356	12,688	17,426	20,692
EPS (INR)	92.3	140.2	192.6	228.7
EPS % Chg YoY	7.8	47.4	38.0	19.7
P/E (x)	94.3	64.0	46.4	38.7
EV/EBITDA (x)	60.7	42.9	31.7	26.3
RoCE (%)	23.8	27.3	30.2	28.5
RoE (%)	30.6	35.2	36.2	32.0

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Market Data

Market Cap (INR)	825bn
Market Cap (USD)	9,420mn
Bloomberg Code	SOIL IN
Reuters Code	SLIN.BO
52-week Range (INR)	13,300 /6,551
Free Float (%)	27.0
ADTV-3M (mn) (USD)	10.6

Price Performance (%)	3m	6m	12m
Absolute	(10.7)	(10.5)	35.4
Relative to Sensex	(7.8)	(9.8)	27.3

ESG Score	2023	2024	Change
ESG score	59.4	60.3	0.9
Environment	34.7	43.0	8.3
Social	69.8	68.1	(1.7)
Governance	69.6	70.8	1.2

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Previous Reports

07-02-2024: [Q3FY25 results review](#)

30-01-2024: [Company Update](#)

Outlook: Switching gears

In our view, SOIL is likely to be viewed increasingly as defence company as the orderbook (from defence) stands at a hefty INR 110bn, compared to INR 21.5bn for non-defence portfolio. Furthermore, the current geopolitical situation is likely to ensure that demand for ammunition remains firm in medium term, directly benefitting SOIL as it is at the bottom of the value chain in ammunition. We maintain **BUY** on SOIL with an unchanged TP of INR 13,720.

Key risks

- Subdued growth in exports & overseas markets.
- Fall in ammonium nitrate price leading to negative price-cost spread.
- Slow traction in construction and infrastructure segments.

Exhibit 1: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	73.2	73.2	73.2
Institutional investors	20.2	20.2	20.0
MFs and others	12.3	11.7	11.7
FIs/Banks	0.3	0.7	1.0
FIIIs	7.6	7.8	7.2
Others	6.6	6.6	6.8

Source: Bloomberg

Exhibit 2: Price chart



Source: Bloomberg

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	60,695	73,011	93,945	1,11,611
Operating Expenses	15,041	15,906	16,557	18,263
EBITDA	13,692	19,398	26,039	31,116
EBITDA Margin (%)	22.6	26.6	27.7	27.9
Depreciation & Amortization	1,434	1,679	1,823	2,185
EBIT	12,258	17,719	24,216	28,932
Interest expenditure	1,094	1,064	1,012	1,012
Other Non-operating Income	445	758	812	823
Recurring PBT	11,609	17,413	24,016	28,743
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,861	4,519	6,225	7,450
PAT	8,749	12,894	17,791	21,293
Less: Minority Interest	393	206	364	601
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	8,749	12,894	17,791	21,293
Net Income (Adjusted)	8,356	12,688	17,426	20,692

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	24,349	25,269	34,111	46,387
of which cash & cash eqv.	2,873	(1,034)	5,423	12,295
Total Current Liabilities & Provisions	7,546	8,407	10,358	11,952
Net Current Assets	16,803	16,862	23,753	34,436
Investments	3,699	3,699	3,699	3,699
Net Fixed Assets	19,607	29,929	40,106	49,921
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,874	2,874	2,874	2,874
Total Intangible Assets	298	298	298	298
Other assets	3,819	3,819	3,819	3,819
Deferred Tax Assets	1,602	1,602	1,602	1,602
Total Assets	48,702	59,083	76,151	96,649
Liabilities				
Borrowings	12,452	10,617	10,617	10,617
Deferred Tax Liability	1,978	1,978	1,978	1,978
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	181	181	181	181
Reserves & Surplus	32,875	44,884	61,588	81,485
Total Net Worth	33,056	45,065	61,769	81,666
Minority Interest	1,217	1,422	1,787	2,387
Total Liabilities	48,702	59,083	76,151	96,649

Source Company data, I-Sec research

Exhibit 5: Quarterly trend

(INR mn, year ending March)

	Mar-24	Jun-24	Sep-24	Dec-24
Net Sales	16,107	16,948	17,158	19,731
% growth (YOY)	12.7	(72.1)	1.2	15.0
EBITDA	3,537	4,494	4,448	5,265
Margin %	22.0	26.5	25.9	26.7
Other Income	177	243	305	95
Extraordinaries	-	-	-	-
Adjusted Net Profit	2,262	3,005	3,038	3,375

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	14,060	10,913	19,380	19,856
Working Capital Changes	1,804	(3,966)	(433)	(3,810)
Capital Commitments	(7,468)	(12,000)	(12,000)	(12,000)
Free Cashflow	6,592	(1,087)	7,380	7,856
Other investing cashflow	203	758	812	823
Cashflow from Investing Activities	(7,265)	(11,242)	(11,188)	(11,177)
Issue of Share Capital	-	-	-	-
Interest Cost	(1,307)	(1,064)	(1,012)	(1,012)
Inc (Dec) in Borrowings	(1,556)	(1,835)	-	-
Dividend paid	-	-	-	-
Others	(840)	(679)	(723)	(795)
Cash flow from Financing Activities	(3,703)	(3,577)	(1,735)	(1,807)
Chg. in Cash & Bank balance	3,093	(3,907)	6,457	6,872
Closing cash & balance	5,694	(1,034)	5,423	12,295

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	96.7	142.5	196.6	235.3
Adjusted EPS (Diluted)	92.3	140.2	192.6	228.7
Cash EPS	108.2	158.8	212.7	252.8
Dividend per share (DPS)	7.5	7.5	8.0	8.8
Book Value per share (BV)	365.3	498.0	682.6	902.5
Dividend Payout (%)	7.8	5.3	4.1	3.7
Growth (%)				
Net Sales	(12.3)	20.3	28.7	18.8
EBITDA	6.2	41.7	34.2	19.5
EPS (INR)	7.8	47.4	38.0	19.7
Valuation Ratios (x)				
P/E	94.3	64.0	46.4	38.7
P/CEPS	84.3	57.4	42.9	36.1
P/BV	25.0	18.3	13.4	10.1
EV / EBITDA	60.7	42.9	31.7	26.3
P / Sales	13.6	11.3	8.8	7.4
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	47.3	48.4	45.3	44.2
EBITDA Margins (%)	22.6	26.6	27.7	27.9
Effective Tax Rate (%)	24.6	26.0	25.9	25.9
Net Profit Margins (%)	14.4	17.7	18.9	19.1
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.2	0.2	0.0	(0.1)
Net Debt / EBITDA (x)	0.4	0.4	0.1	(0.2)
Profitability Ratios				
RoCE (%)	23.8	27.3	30.2	28.5
RoE (%)	30.6	35.2	36.2	32.0
RoIC (%)	26.4	30.0	33.7	32.4
Fixed Asset Turnover (x)	2.5	2.4	2.3	2.1
Inventory Turnover Days	55	52	43	41
Receivables Days	55	62	71	68
Payables Days	-	-	-	-

Source Company data, I-Sec research

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