

CMP: ₹ 1704

Target: ₹ 1750 (3%)

Target Period: 12 months

July 30, 2021

HOLD

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 ~290,000 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 51 countries in the world and has recently expanded its manufacturing base to many African Countries

Q1FY22 Results: Solar reported handsome numbers in Q1FY22.

- Revenue for the quarter came in at ₹ 825.2 crore, up 68% YoY, 4% QoQ
- EBIDTA margins came in at 21.2% vs. 18.7% YoY & 20.8% QoQ. EBIDTA came in at ₹ 174.7 crore, up 90% YoY & 6.2% QoQ
- PAT (post minority interest) was at ₹ 97.5 crore in Q1FY22 vs. ₹ 91 crore in Q4Y21 and ₹ 42.1 crore in Q1FY21

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

- We revise our rating on the stock from BUY to HOLD

Target Price and Valuation: We value the stock at ₹ 1750, valuing the business at 35x FY23E earnings.

Key triggers for future price performance:

- Overseas subsidiaries turning breakeven and commencement of operations in Australia
- Capacity expansion and increase in geographical reach
- Defence segment picking up

Alternate Stock Idea: We also like NRB Bearings 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 ₹ 175 per share

Key Financial Summary

	FY20	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E)
Revenue	2,237.3	2,515.6	3,296.9	3,818.4	4,398.6	20.5%
EBITDA	434.3	514.6	679.2	821.0	958.9	23.1%
EBITDA margin (%)	19.4	20.5	20.6	21.5	21.8	
Net Profit	267.4	276.4	360.0	453.0	535.4	24.7%
EPS (₹)	29.6	30.5	39.8	50.1	59.2	
P/E (x)	57.7	55.8	42.8	34.0	28.8	
EV/EBITDA (x)	36.7	30.9	23.4	19.2	16.3	
RoCE (%)	17.7	17.7	22.5	25.4	26.4	
RoE (%)	19.4	17.5	20.6	22.0	21.9	

Source: Company, ICICI Direct Research



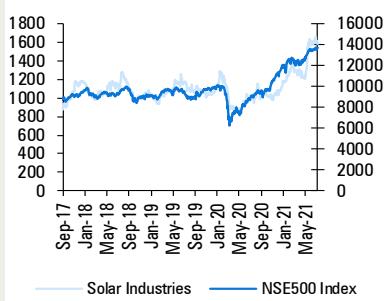
Particulars

Stock Data	Amount
Market Capitalization	₹ 15419.5 Crore
Debt (FY21)	₹ 644.9 Crore
Cash and Inv (FY21)	₹ 181.2 Crore
EV (FY21)	₹ 15883.2 Crore
52 week H/L (BSE)	1952 / 925
Equity capital	₹ 18.1 Crore
Face value	₹ 2

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	73.2	73.2	73.2	73.2
FII	4.8	5.4	5.4	5.5
DII	17.3	16.7	16.8	16.7
Others	4.7	4.9	4.6	4.7

Price Chart



Recent event & key risks

- Potential third wave in countries where Solar has overseas business
- Key Risk:** Further rise in prices of ammonium nitrate

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Adil Khan
adil.khan@icicisecurities.com

Key takeaways of recent quarter

Q1FY22 Results: Strong earnings momentum continues

- Solar Industries registered a robust performance with strong growth in realisation as well as volumes. Revenue for the quarter came in at ₹ 825.2 crore, up 68% YoY & 4% QoQ
- Gross margins contracted ~197 bps YoY & 171 bps QoQ on account of higher input costs
- Nonetheless, positive operating leverage aided EBIDTA margins, which came in at 21.2% vs. 18.7% YoY & 20.8% QoQ. EBIDTA came in at ₹ 174.7 crore, up 90% YoY & 6.2% QoQ
- PAT (post minority interest) was at ₹ 97.5 crore in Q1FY22 vs. ₹ 91 crore in Q4Y21 and ₹ 42.1 crore in Q1FY21

Q1FY22 Earnings Conference Call highlights

- Government of India (GoI) policies related to hosing & infra, private coal mining and push for make in India defence product has resulted in better performance YoY
- Prime reason for increasing operating margin are increasing sales, stable raw material prices and relatively better performance from overseas subsidiaries coupled with positive operating leverage
- The company has a total order book of ~₹ 1704 crore with defence contributing ₹ 633 crore
- The management reiterated their 30%+ growth guidance for FY22E
- The company is also working with DRDO on various projects. Commercialisation of these products will start soon
- Resource optimisation and increasing topline has resulted in low other expenses/sales. It is expected to be more or less same in coming quarters
- 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. There will be more clarity in next quarter's conference call. SIL has forecast a capex of ~₹ 300 crore
- Ammonium nitrate, which is the main component used by the company, is sourced 80% domestically and 20% from outside with prices being set on monthly, quarterly and annually basis along with flexibility in pricing
- The company is confident of increasing revenue from defence to ₹ 300 crore this financial year and subsequently to ₹ 600 crore by FY24. Revenue from mining is expected to increase 25% YoY and further to 70-80% in the next three years

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Revenues	825.2	491.1	68.0	791.4	4.3	Better performance from overseas & exports, housing infra
Raw materials costs	469.5	269.7	74.0	436.7	7.5	Higher raw material costs
Employees Cost	68.0	48.8	39.2	66.3	2.6	
Other Expenses	113.1	80.6	40.2	123.9	-8.7	
Total Expenditure	650.5	399.2	62.9	626.8	3.8	
EBITDA	174.7	91.9	90.1	164.6	6.2	
EBITDA margins (%)	21.2	18.7	245 bps	20.8	38 bps	Improved margins led by positive operating leverage
Depreciation	25.2	22.8	10.5	22.5	11.8	
EBIT	149.5	69.1	116.3	142.0	5.3	
Interest	10.3	12.3	-16.6	10.5	-2.1	
Other Income	0.8	3.9	-79.4	2.4	-67.2	
Extra Ordinary Item	0.0	0.0		0.0	0.0	
PBT	140.1	60.7	130.7	134.0	4.6	
Total Tax	39.2	16.8	134.2	38.9	0.7	
PAT(after MI)	97.5	42.1	131.6	91.0	7.1	Better profitability led by all-round performance
Key Metrics	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	
Ind. explosives volume (MT)	101,782	70,287	44.8	107,336	-5.2	Strong volumes witnessed YoY as well as QoQ
Realisation (₹/MT)	41,161	34,238	20.2	38,922	5.8	Realisation grew 20.2% YoY
Value (₹ crore)	419	241	74.1	418	0.3	
Initiating Systems (₹ crore)	96	61	57.4	111	-13.5	Better-than-expected performance from initiating systems
Exports & Overseas (₹ crore)	312	207	50.5	291	7.1	Strong performance across geographies
Defence (₹ crore)	47	23	99.1	20	139.0	Multi mode hand grenade propelled defence revenue

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY20		FY21		FY22E		FY23E		FY24E
	Actual	Actual	Old	New	Old	New	% Change	New	
Revenue	2,237	2,516	3,191	3,297	3,707	3,818	3	4,399	
EBITDA	434	515	677	679	786	821	4	959	
EBITDA Margin (%)	19	20	21	21	21	22	30 bps	22	
PAT	267	276	358	360	425	453	7	535	
EPS (₹)	30	31	40	40	47	50	7	59	

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
(Year-end March)	FY21	FY22E	FY23E	₹ crore
Revenue	2,516	3,297	3,818	4,399
<i>Growth YoY (%)</i>	<i>31.1</i>	<i>15.8</i>	<i>15.2</i>	
Raw Material Expenses	1,347	1,846	2,081	2,406
<i>COGS</i>	<i>53.5</i>	<i>56.0</i>	<i>54.5</i>	<i>54.7</i>
Employee Expenses	231	277	328	374
Other Expenses	424	495	588	660
Total Operating Expenditure	2,001	2,618	2,997	3,440
Operating Profit (EBITDA)	515	679	821	959
<i>Growth YoY (%)</i>	<i>32.0</i>	<i>20.9</i>	<i>16.8</i>	
Interest	45	56	51	46
Other Income	21	30	40	40
PBDT	491	653	810	953
Depreciation	94	109	126	145
PBT after Exceptional Items	397	543	684	808
Total Tax	109	152	191	226
PAT before MI	288	391	492	582
Minority Interest	12	31	39	47
PAT	276	360	453	535
<i>Growth YoY (%)</i>	<i>30.3</i>	<i>25.8</i>	<i>18.2</i>	
EPS	30.5	40	50	59

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
(Year-end March)	FY21	FY22E	FY23E	₹ crore
Profit after Tax	276	360	453	535
Add: Depreciation	94	109	126	145
Add: Interest Paid	45	56	51	46
Cash Flow before WC changes	415	526	630	726
(Increase)/Decrease in inventory	(110)	61	(60)	(67)
(Increase)/Decrease in debtors	(85)	(86)	(86)	(95)
(Increase)/Decrease in Loan & Advances	2	2	(0)	(0)
(Increase)/Decrease in CA	(12)	9	(11)	(13)
Net Increase in Current Assets	(181)	(15)	(158)	(175)
Net Increase in Current Liabilities	212	(62)	71	79
Net CF from operating activities	446	449	544	630
(Purchase)/Sale of Fixed Assets	(210)	(315)	(275)	(275)
Inc / (Dec) in Deferred Tax Liability	12	-	-	-
Net CF from Investing Activities	(203)	(262)	(272)	(272)
Proceeds/(Repay) Secured Loan	189	(101)	(50)	(25)
Proceeds/(Repay) Unsecured Loan	(163)	81	(25)	(25)
(Payment) of Dividend	(54)	(72)	(72)	(72)
Interest Paid	(45)	(56)	(51)	(46)
Net CF from Financing Activities	(97)	(265)	(274)	(243)
Net Cash flow	146	(78)	(1)	115
Cash and Cash Eq. (beginning)	117	263	185	184
Cash and Cash Equivalent (end)	263	185	184	298

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
(Year-end March)	FY21	FY22E	FY23E	₹ crore
Equity Capital	18.1	18.1	18.1	18.1
Reserve and Surplus	1,561	1,733	2,038	2,426
Total Shareholders funds	1,579	1,751	2,056	2,444
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	2,498	2,663	2,897	3,238
 Gross Block	 1,934	 2,249	 2,524	 2,799
Accumulated Depreciation	476	585	711	856
Net Block	1,253	1,664	1,813	1,944
Capital WIP	282	50	50	50
Total Fixed Assets	1,535	1,714	1,863	1,994
Inventory	440	379	439	506
Debtors	455	542	628	723
Loans and Advances	4	3	3	4
Other Current Assets	82	73	84	97
Cash	181	185	184	298
Total Current Assets	1,226	1,244	1,400	1,690
Creditors	286	226	262	301
Provisions	228	226	262	301
Total Current Liabilities	532	469	541	620
Net Current Assets	694	774	859	1,070
Total Assets	2498	2663	2897	3238

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per Share Data				
Reported EPS	30.5	39.8	50.1	59.2
Cash EPS	40.9	51.9	64.0	75.2
BV per share	174.5	193.5	227.3	270.1
Dividend per share	7.0	6.0	8.0	8.0
Cash Per Share	52.6	64.6	78.6	94.5
Operating Ratios (%)				
EBITDA Margin	20.5	20.6	21.5	21.8
EBIT / Net Sales	16.7	17.3	18.2	18.5
PAT / Net Sales	11.0	10.9	11.9	12.2
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	17.5	20.6	22.0	21.9
RoCE	17.7	22.5	25.4	26.4
RoIC	22.1	26.0	28.6	30.7
Valuation Ratios (x)				
P/E	55.8	42.8	34.0	28.8
EV / EBITDA	30.9	23.4	19.2	16.3
EV / Net Sales	6.3	4.8	4.1	3.6
Market Cap / Sales	6.1	4.7	4.0	3.5
Price to Book Value	9.8	8.8	7.5	6.3
Solvency Ratios				
Debt / EBITDA	1.3	0.9	0.7	0.5
Debt / Equity	0.4	0.4	0.3	0.2
Current Ratio	1.8	2.1	2.1	2.1
Quick Ratio	1.0	1.3	1.3	1.3

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

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, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Sanjay Manyal (MBA Finance) Research Analysts, 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. 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. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. 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 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 icidirect.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 Retail 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 Institutional 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 endeavor 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 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 a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership 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.