

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



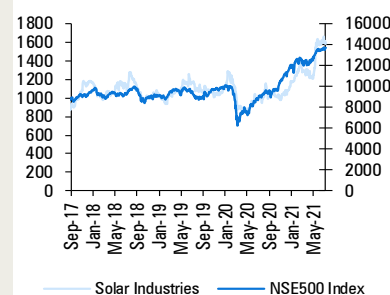
Particulars

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

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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

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 housing & 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

	FY20	FY21	FY22E		FY23E			FY24E
(₹ Crore)	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					₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E					
Revenue	2,516	3,297	3,818	4,399					
Growth YoY (%)		31.1	15.8	15.2					
Raw Material Expenses	1,347	1,846	2,081	2,406					
COGS	53.5	56.0	54.5	54.7					
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					
Growth YoY (%)		32.0	20.9	16.8					
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					
Growth YoY (%)		30.3	25.8	18.2					
EPS	30.5	40	50	59					

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement					₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E					
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 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					₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E					
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

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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