



KEY HIGHLIGHTS

- In Q2F23, the consolidated revenue grew up by 99% at Rs 1,567 crores versus Rs 788 crores.
- Explosives revenue was up by 90%. Realization of explosives has increased by almost 73%, that is Rs 70,900 versus Rs 40,874 during Q3FY23.
- Initiating Systems revenue increased by 50%. However Coal India's contribution of revenue stood at 13% compared to 15% whereas revenues increased by 67% year-on-year to Rs 198 crores from Rs 118 crores.
- PBT has increased by massive 144% from Rs 104 crores to Rs 254 crores & PAT has increased by 152% from Rs 75 crores to INR 55 crores in Q3FY23.

1. MANAGEMENT COMMENTARY:

- Management have given a guidance of 15% volume growth for the whole financial year as more volumes are expected in the second half since the first half always have lower demand due to monsoon. The export volumes are also expected to be around 15% to 16% year-on-year basis.
- The management has revised revenue guidance of around 50% instead of 30% on the basis of better realization in input prices and the improved sales from its overseas subsidiaries and management stated that defense business has also given an upward trajectory.
- Going forward, for the whole year, company maintain the EBIDTA guidance of 18% to 20% & 11% to 12% for PAT.
- Management indicated that the share of Coal India, which was around, 14%-15% on the half yearly basis will be likely to remain around 10% to 15% & will not cross more than that.
- Company's overseas expansions are materializing in the last few years. South Africa, Australia has started given the better results as compare to last financial year. Since, company is having growth from across the all geographies hence based on that company is likely to have around 15% volume growth, from India as well as outside.
- For the current year, company have a capex plan of around Rs 300 crores to Rs 500 crores.
- As a part of its policy, company have been maintaining the debt equity around 0.5 or lower than 0.5.

2. OTHER DEVELOPMENTS:

- As company's product portfolio covers variety of offerings for different applications like high energy materials, pyros, propylenes, rockets and war heads, company have now entered into the drone with ammunition also.
- Company has received export order of INR 300 crores in the RFP for Pinaka & the likely time line is next two years. So company expects to commence the production from the Q1 of the next financial year and likely to finish in 12 months to 18 months' time.

4. VALUATION AND OUTLOOK:

- The company is currently trading at 48x of FY23E eps & 39x of FY24E eps.
- Company has shown strong financial performance along with robust orderbook of Rs 4008 Cr.
- Company's strategy to grow overseas businesses, expanding non-coal India markets and defense continues to boost its performances. Exports and overseas business has outperformed by showing a growth of 107% year-on-year. Defense business has achieved another milestone by crossing INR 100 crores in this quarter. Therefore, company after establishing in Indian ammunition market, is looking forward for export opportunities that are providing a new avenue of growth and company is first private sector company in India to receive order for exports. This in turn lead the management to revise its annual revenue growth for FY23 from 30% to around 50%
- Hence, we recommend BUY on stock with price target of Rs 4620 (up 15%) in medium term.

RECOMMENDATION – BUY

CMP –4007.45

TARGET - 4620

| Industry | Chemicals |
|----------------------------|-----------------|
| NSE CODE | SOLARINDS |
| BSE CODE | 532725 |
| Market Cap (₹ Cr) | 36263.44 |
| Shares Outstanding (in Cr) | 9.05 |
| 52 wk High/Low (₹) | 4269.40/2160.05 |
| P/E | 58.81 |
| P/BV | 16.58 |
| Face Value (₹) | 2.00 |
| Book Value(TTM) (₹) | 241.67 |
| EPS (TTM)(₹) | 68.14 |
| Dividend Yield (%) | 0.18 |
| Debt / Equity | 0.45 |

SHAREHOLDING PATTERN

| | Sept'22 | Jun' 22 | Sept' 21 |
|---------------------------|---------|---------|----------|
| Promoters | 73.15 | 73.15 | 73.15 |
| Mutual Funds | 14.25 | 14.45 | 15.61 |
| FII/FPI | 6.64 | 6.63 | 5.81 |
| Alternate Investment Fund | 0.33 | 0.27 | 0.01 |
| Retail & Others | 5.63 | 5.50 | 5.43 |
| Promoter Pledging | 0.00 | 0.00 | 0.00 |

FINANCIAL SNAPSHOT (₹ CR)

| Y/E March | 2022A | 2023E | 2024E |
|------------------|---------|---------|---------|
| Sales | 3947.61 | 6216.55 | 8081.51 |
| Sales Gr. (%) | | 57.47 | 29.99 |
| EBITDA | 734.56 | 1243.31 | 1535.00 |
| EBITDA mrg. (%) | 19.25 | 19.99 | 18.99 |
| Adj. PAT | 441.28 | 745.98 | 929.37 |
| Adj. EPS (₹) | 48.76 | 82.43 | 102.69 |
| EPS Gr. (%) | | 69.05 | 24.58 |
| BV/Sh. (₹) | 211.52 | 286.45 | 379.14 |
| Ratios | | | |
| Valuation | | | |
| P/E (x) | 82.18 | 48.61 | 39.02 |
| P/BV (x) | 18.94 | 13.99 | 10.56 |
| Price/Sales (x) | 9.19 | 5.83 | 4.48 |

Valuation

| | |
|---------------------------|-------|
| Historical P/E (3 Yr Avg) | 60.10 |
| Industry P/E | 29.75 |
| Historical P/B (3 Yr Avg) | 11.77 |
| Industry P/B | 5.07 |



SEGMENT PERFORMANCE

Q2FY23 v/s Q2FY22

Explosives

Initiating Systems Value (Cr)

Quantity (MT)

Rate (in Rs)

Value (Cr)

87661
Up 9%
80337

70900
Up 73%
40874

622
Up 90%
328

126
Up 50%
84

QUARTERLY FINANCIALS

(₹ Cr)

| | Q3FY 21 | Q4 FY21 | Q1 FY22 | Q2 FY22 | Q3 FY22 | Q4 FY22 | Q1 FY23 | Q2 FY23 | FY21 | FY22 |
|---------------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|---------|----------------|
| Net sales | 645.85 | 791.39 | 825.3 | 787.66 | 1017.87 | 1316.85 | 1615.64 | 1566.60 | 2515.63 | 3947.61 |
| change (%) | | 22.53 | 4.28 | -4.56 | 29.23 | 29.37 | 22.69 | -3.04 | -- | 56.92 |
| EBITDA | 132.24 | 164.55 | 174.72 | 131.75 | 177.97 | 262.82 | 282.97 | 298.98 | 514.60 | 747.26 |
| Margins (%) | 20.48 | 20.79 | 21.17 | 16.73 | 17.48 | 19.96 | 17.51 | 19.08 | 20.45 | 18.93 |
| YoY growth (%) | | 24.43 | 6.18 | -24.59 | 35.08 | 47.68 | 7.67 | 5.66 | --- | 45.21 |
| Depreciation | 24.36 | 22.53 | 25.18 | 27.25 | 27.19 | 29.63 | 30.54 | 30.35 | 93.53 | 109.25 |
| Interest | 10.94 | 10.48 | 10.26 | 11.80 | 13.41 | 14.78 | 14.27 | 19.41 | 45.39 | 50.25 |
| Other income | 13.23 | 2.44 | 0.80 | 11.02 | 7.07 | 0.77 | 8.58 | 4.36 | 21.42 | 19.66 |
| PBT | 110.17 | 133.98 | 140.08 | 103.72 | 144.44 | 29.18 | 246.74 | 253.58 | 397.10 | 607.42 |
| Tax | 28.74 | 38.94 | 39.23 | 28.95 | 39.38 | 44.39 | 64.09 | 64.89 | 109.03 | 151.95 |
| Rate (%) | 26.09 | 29.06 | 28.01 | 27.91 | 27.26 | 152.12 | 25.97 | 25.59 | 27.46 | 25.02 |
| Adjusted PAT | 78.04 | 91.02 | 97.51 | 73.79 | 102.09 | 167.89 | 170.21 | 176.38 | 276.35 | 441.28 |
| change (%) | | 16.63 | 7.13 | -24.33 | 38.35 | 64.45 | 1.38 | 3.62 | --- | 59.68 |

Source: Company, Ace Equity Database



INDUSTRY OVERVIEW

Industrial explosives market

In industrial explosives market CAGR is expected to grow at 5.4% between 2021 and 2027. The market is expected to reach US\$16 billion by 2027. Huge investments for mining, coupled with favourable government initiatives are expected to drive the growth of the industrial explosive industry. Demand in the Asia Pacific region is also expected to surge due to the development of housing and infrastructure projects and improvements in the public transit systems including railways and roadways. It is also expected to increase the number of road development projects and tunnelling activities, which are heavily reliant on the usage of industrial explosives. In addition, the presence of mining corporations in Australia and China are expected to improve the demand for explosives.

Indian industrial explosives industry

Growth drivers

Coal mining industry: Rapid urbanisation and development of smart cities in India is pushing the demand for new and modern infrastructure. The government is also pushing to cut down coal imports and improve domestic coal production. These factors are expected to drive the industrial explosives growth in the domestic market in the near short term.

Global defence industry : The defence industry has weathered the pandemic due to strong order books, and 2022 is expected to be the year where defence companies will focus on rebuilding and increase agility in operations. The global defence market is predicted to increase at a CAGR of 6.8%, from \$452.69 billion in 2021 to \$483.47 billion in 2022, as military projects continue to be a strategic priority and countries further strengthen their militaries. The industry's potential value is expected to increase due private sector innovation in digital initiatives across production and the supply network. Furthermore, new technologies, evolving business models, and increasing innovation will further accelerate the shift toward digital and operational efficiencies. The defence industry is estimated to reach \$604.82 billion by 2026, growing at a 5.8% CAGR.

Indian defence industry : In the Union Budget, 2022 domestic procurement budget was increased by 10 per cent y-o-y, to 68 per cent of the budgeted Capital expenditure. Also, the government has allowed up to 74% FDI in Defence Sector through the Automatic Route for companies seeking new defence industrial licenses. These measures are expected to reduce the dependency of defence equipment through imports and drive domestic defence procurement.

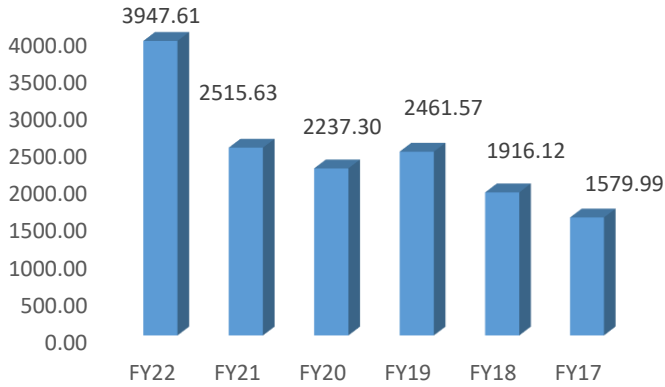
PEER PERFORMANCE

| Particulars (FY22) (Rs Cr) | Atul | Chemplast | GHCL | Solar Inds |
|----------------------------|---------|-----------|---------|----------------|
| Net Sales | 5080.89 | 5891.99 | 3778.36 | 3947.61 |
| PAT | 596.58 | 648.65 | 598.30 | 441.28 |
| PAT Margin % | 11.59 | 11.01 | 15.83 | 11.43 |
| ROE% | 14.45 | 0.00 | 21.55 | 26.07 |
| P/E | 43.23 | 12.61 | 5.09 | 59.88 |
| P/B | 5.74 | 45.86 | 1.53 | 16.88 |
| EV/EBIDTA | 26.19 | 6.13 | 3.85 | 36.37 |
| Mcap/Sales | 4.59 | 1.18 | 1.68 | 6.69 |

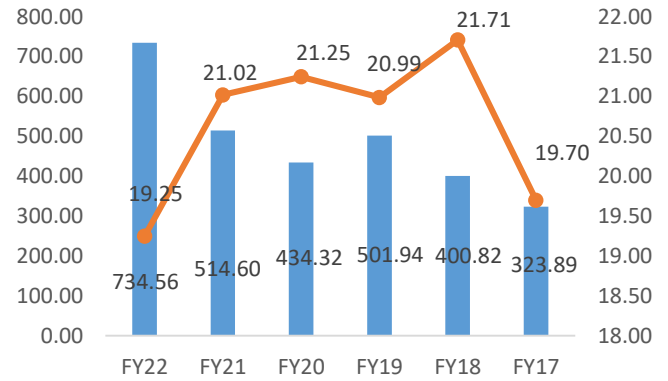
Source: Ace Equity Database



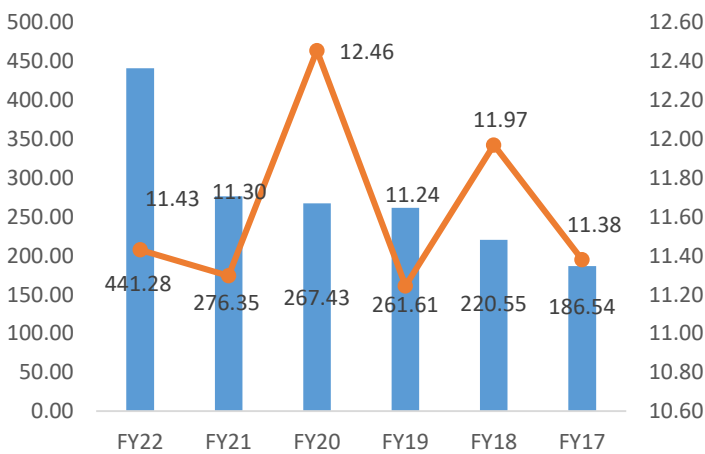
Net Sales (Rs Cr)



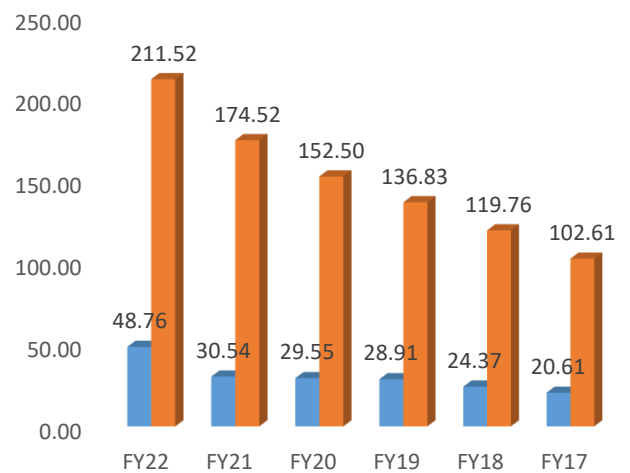
EBIDTA & EBIDTA Margin %



Net Profit & Margin %



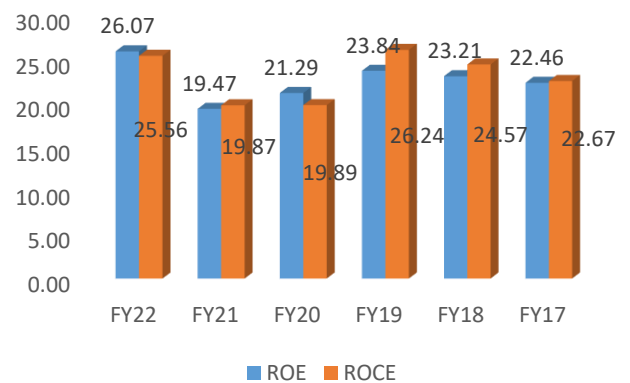
EPS & Book Value



Total Debt/Equity(x)



ROE & ROCE %





INVESTMENT RATIONALE:

Healthy Sectoral demand – The overall energy consumption of India continues to rise and with the nascent supply of renewable energy, the demand for coal is expected to increase in future. Also, favourable government schemes due to government's emphasis on 'Make in India' to create 'Atmanirbhar Bharat' has reduced dependence on import and increased domestic demand for defence manufacturing in India. In 2021, a new scheme under Make in India was launched to promote MSMEs in the defence exports market. The defence procurement policy 2020 underwent significant reforms and increased the automatic approval of FDI from 49% to 74%. It is expected to attract foreign funding to India's defence sector. All this will help the company in gaining strong demand going ahead.

- **Strong Financials with robust order book** – Company has posted strong financials along with the strong order book of INR 4,000 crores-plus, which includes defense orders of INR 885 crores. This gives strong revenue visibility going ahead as management has revised its guidance of annual revenue growth for FY23 from 30% to around 50% on back of higher realization in input prices and the improved sales from company's overseas subsidiaries along with the healthy Defense business .

RISK FACTORS:

- Increase in Input cost
- Increase in Competitive intensity

COMPANY RECAP:

- Solar Industries India Limited(Solar) is a global manufacturer of industrial explosives and initiating systems. Leveraging its early-mover advantage as a private player in the defence sector, it now stands at an inflection point to capitalise on emerging opportunities in the sector.
- Solar have also successfully commenced commercial execution of Multi Mode Hand Grenades (MMHG) orders from the defence industry. The defence sector continues to contribute to company's top line along with other industries like mining, exports, overseas markets, housing and infrastructure.
- Solar will be the first Indian company to fully indigenise and develop loitering munitions (LM) in-house.
- **Industrial Explosives:** Industrial explosives comprise:
 - Bulk Explosives
 - Packaged Explosives
 - Initiating Systems
- **Defence Products:**
 - High Energy Materials (HMX, RDX, TNT & Compounds)
 - Composite Propellants for (Pinaka, Akash, Brahmos etc.)
 - Explosives Filling of Ammunitions
 - Mines, Multi-Mode Hand Grenade, Warheads
 - Fuses, Pyros and Ignitiors
 - Rocket Integration



ANNUAL PERFORMANCE

Income Statement

| (Rs Cr) | FY22 | FY21 | FY20 | FY19 | FY18 | FY17 |
|--------------------------------|---------|---------|---------|---------|---------|---------|
| Net Sales | 3947.61 | 2515.63 | 2237.30 | 2461.57 | 1916.12 | 1579.99 |
| Growth % | 56.92 | 12.44 | -9.11 | 28.47 | 21.27 | |
| Total Expenditure | 3213.05 | 2001.03 | 1802.98 | 1959.63 | 1515.30 | 1256.10 |
| EBIDTA | 734.56 | 514.60 | 434.32 | 501.94 | 400.82 | 323.89 |
| Growth % | 42.74 | 18.48 | -13.47 | 25.23 | 23.75 | |
| Other Income | 32.36 | 21.42 | 41.05 | 14.72 | 22.83 | 13.21 |
| EBIDT | 766.92 | 536.02 | 475.37 | 516.66 | 423.65 | 337.10 |
| Interest | 50.25 | 45.39 | 55.04 | 49.87 | 32.72 | 26.89 |
| PBDT | 716.67 | 490.63 | 420.33 | 466.79 | 390.93 | 310.21 |
| Depreciation | 109.25 | 93.53 | 84.53 | 58.89 | 51.29 | 38.74 |
| PBT | 607.42 | 397.10 | 335.80 | 407.90 | 339.64 | 271.47 |
| Exceptional item | | | | -6.05 | | |
| PBT | 607.42 | 397.10 | 335.80 | 401.85 | 339.64 | 271.47 |
| Tax | 151.95 | 109.03 | 57.13 | 125.05 | 106.05 | 76.74 |
| PAT | 455.47 | 288.07 | 278.67 | 276.80 | 233.59 | 194.73 |
| Minority Interest | -14.19 | -11.72 | -11.24 | -15.19 | -13.04 | -8.19 |
| Consolidated Net Profit | 441.28 | 276.35 | 267.43 | 261.61 | 220.55 | 186.54 |
| Growth % | 59.68 | 3.34 | 2.22 | 18.62 | 18.23 | |

Balance Sheet

| (Rs Cr) | FY22 | FY21 | FY20 | FY19 | FY18 | FY17 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| LIABILITIES | | | | | | |
| <i>Share Capital</i> | 18.10 | 18.10 | 18.10 | 18.10 | 18.10 | 18.10 |
| <i>Share Warrants & Outstandings</i> | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| <i>Total Reserves</i> | 1896.18 | 1561.31 | 1361.99 | 1220.23 | 1065.76 | 910.49 |
| Shareholder's Funds | 1914.28 | 1579.41 | 1380.09 | 1238.33 | 1083.86 | 928.59 |
| Minority Interest | 100.63 | 62.69 | 51.51 | 47.55 | 47.38 | 40.26 |
| Secured Loans | 397.89 | 401.41 | 252.80 | 151.56 | 196.10 | 147.96 |
| Unsecured Loans | 37.97 | 31.80 | | | | |
| Deferred Tax Asset | 42.26 | 46.13 | 53.33 | 90.36 | 93.93 | 78.44 |
| Other Long Term Liabilities | 17.51 | 16.60 | 8.68 | | 0.54 | |
| Long term Trade payables | | 1.04 | 0.31 | 0.53 | | |
| Long Term Provisions | 1.00 | 0.91 | 1.92 | 0.15 | 0.18 | |
| Total Current Liabilities | 1117.88 | 819.43 | 732.15 | 724.47 | 565.98 | 526.50 |
| Total Liabilities | 3629.42 | 2959.42 | 2480.79 | 2252.95 | 1987.97 | 1721.75 |
| ASSETS | | | | | | |
| <i>Gross Block</i> | 1928.76 | 1622.57 | 1455.90 | 1213.56 | 1037.78 | 839.76 |
| <i>Less: Acc Depreciation</i> | 436.03 | 335.04 | 247.35 | 170.68 | 114.50 | 62.99 |
| Net Block | 1492.73 | 1287.53 | 1208.55 | 1042.88 | 923.28 | 776.77 |
| Capital WIP | 221.13 | 282.37 | 152.23 | 165.56 | 96.84 | 90.93 |
| Intangible asset | 9.24 | 10.51 | 12.74 | 12.00 | 10.56 | |
| <i>Non Current Investments</i> | 18.22 | 0.97 | 2.33 | 2.56 | 3.04 | 3.50 |
| <i>Long term loans & Advances</i> | 95.88 | 67.83 | 98.24 | 54.30 | 106.67 | 94.22 |
| Other Non Current Assets | 128.36 | 84.55 | 23.20 | 13.15 | 28.90 | 24.40 |
| Total Non Current Assets | 1965.56 | 1733.76 | 1497.29 | 1290.45 | 1169.29 | 989.82 |
| <i>Current Investments</i> | | | 0.02 | 30.08 | 14.01 | 49.75 |
| <i>Inventories</i> | 718.87 | 440.49 | 330.98 | 282.74 | 232.42 | 181.07 |
| <i>Sundry Debtors</i> | 541.10 | 455.48 | 370.32 | 399.04 | 363.58 | 319.06 |
| <i>Cash and Bank</i> | 98.75 | 181.20 | 120.14 | 91.76 | 69.46 | 39.39 |
| <i>Other Current Assets</i> | 102.86 | 85.45 | 96.09 | 103.61 | 65.54 | 64.01 |
| <i>Short Term Loans & Advances</i> | 202.28 | 63.04 | 65.95 | 55.27 | 73.67 | 78.65 |
| Total Current Assets | 1663.86 | 1225.66 | 983.50 | 962.50 | 818.68 | 731.93 |
| Total Assets | 3629.42 | 2959.42 | 2480.79 | 2252.95 | 1987.97 | 1721.75 |



Ratios

| Rs Cr | FY22 | FY21 | FY20 | FY19 | FY18 | FY17 |
|-----------------------------------|--------|--------|--------|--------|--------|--------|
| Earnings Per Share (Rs) | 48.76 | 30.54 | 29.55 | 28.91 | 24.37 | 20.61 |
| CEPS(Rs) | 62.40 | 42.17 | 40.13 | 37.09 | 31.48 | 25.80 |
| DPS(Rs) | 7.50 | 6.00 | 6.00 | 7.00 | 6.00 | 5.00 |
| Book Value (Rs) | 211.52 | 174.52 | 152.50 | 136.83 | 119.76 | 102.61 |
| Dividend Pay Out Ratio(%) | 15.38 | 19.65 | 20.30 | 24.22 | 24.62 | 24.26 |
| Margin Ratios | | | | | | |
| PBIDTM (%) | 19.25 | 21.02 | 21.25 | 20.99 | 21.71 | 19.70 |
| PATM (%) | 11.43 | 11.30 | 12.46 | 11.24 | 11.97 | 11.38 |
| Performance Ratios | | | | | | |
| ROA (%) | 13.83 | 10.59 | 11.77 | 13.05 | 12.59 | 12.04 |
| ROE (%) | 26.07 | 19.47 | 21.29 | 23.84 | 23.21 | 22.46 |
| ROCE (%) | 25.56 | 19.87 | 19.89 | 26.24 | 24.57 | 22.67 |
| Asset Turnover(x) | 1.21 | 0.94 | 0.95 | 1.16 | 1.05 | 1.06 |
| Inventory Turnover(x) | 6.87 | 6.61 | 7.29 | 9.56 | 9.44 | 10.04 |
| Debtors Turnover(x) | 8.00 | 6.18 | 5.82 | 6.46 | 5.72 | 5.80 |
| Fixed Asset Turnover (x) | 2.24 | 1.66 | 1.68 | 2.19 | 2.08 | 2.01 |
| Sales/Working Capital (x) | 7.30 | 6.28 | 8.90 | 10.34 | 7.72 | 8.33 |
| Efficiency Ratios | | | | | | |
| Fixed Capital/Sales(x) | 0.45 | 0.60 | 0.60 | 0.46 | 0.48 | 0.50 |
| Receivable days | 45.64 | 59.10 | 62.76 | 56.54 | 63.84 | 62.93 |
| Inventory days | 53.10 | 55.21 | 50.06 | 38.19 | 38.67 | 36.36 |
| Payable days | 38.93 | 51.02 | 31.41 | 29.72 | 28.88 | 29.94 |
| Financial Stability Ratios | | | | | | |
| Total Debt/Equity(x) | 0.45 | 0.50 | 0.51 | 0.49 | 0.48 | 0.54 |
| Current Ratio(x) | 1.49 | 1.50 | 1.34 | 1.33 | 1.45 | 1.39 |

Cash Flow Statement

| Rs Cr | FY22 | FY21 | FY20 | FY19 | FY18 | FY17 |
|---|---------|---------|---------|---------|---------|---------|
| Profit Before Tax | 607.42 | 397.10 | 335.80 | 401.85 | 339.64 | 271.47 |
| Adjustment | 162.27 | 168.94 | 130.31 | 142.72 | 104.26 | 16.94 |
| Changes In working Capital | -312.29 | -105.27 | -33.35 | -101.40 | -100.35 | -111.76 |
| Cash Flow after changes in Working Capital | 457.40 | 460.77 | 432.76 | 443.17 | 343.55 | 176.65 |
| Interest Paid | | | | | | |
| Tax Paid | -159.60 | -104.09 | -107.95 | -129.42 | -89.45 | -59.03 |
| Other Direct Expenses paid | | | | | | |
| Extra & Other Item | | | | | | |
| Cash From Operating Activities | 297.80 | 356.68 | 324.81 | 313.75 | 254.10 | 117.62 |
| Cash Flow from Investing Activities | -303.05 | -250.74 | -212.24 | -202.26 | -174.33 | -170.40 |
| Cash from Financing Activities | -45.40 | -26.07 | -33.62 | -51.74 | -53.21 | 53.27 |
| Net Cash Inflow / Outflow | -50.65 | 79.87 | 78.95 | 59.75 | 26.56 | 0.49 |
| Opening Cash & Cash Equivalents | 169.93 | 92.56 | 61.00 | 52.49 | 25.93 | 25.44 |
| Effect of Foreign Exchange Fluctuations | -34.61 | -2.50 | -47.39 | -51.24 | | |
| Closing Cash & Cash Equivalent | 84.67 | 169.93 | 92.56 | 61.00 | 52.49 | 25.93 |

Source: Ace Equity Database



RATING CRITERIA

| INVESTMENT RATING | EXPECTED RETURN |
|-------------------|-----------------|
| BUY | $\geq 15\%$ |
| ACCUMULATE | 5% to 15% |
| HOLD | 0 to 5% |
| REDUCE | -5% to 0 |
| SELL | $< -5\%$ |



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