



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Revenue growth of 47% YoY was aided by robust growth in exports and non CIL & institutional segments.
- Consolidated EBITDA margin at 18.5% was down 80 bps QoQ; mainly due to (Non cash) hyperinflation and forex transaction loss of Rs.478 million.
- Quarter saw highest ever revenue from defence at Rs 1.1 billion.
- Inventory days were down to 92 in FY23 (FY22: 122).

2. MANAGEMENT COMMENTARY:

- EBITDA Margin is likely to be 20-22% vs 18.6% in FY23. Key drivers of EBITDA margin expansion are: higher volumes in domestic explosives business, higher share of defence business, and improved performance of overseas subsidiaries.
- Volume guidance: Shipments are likely to grow 15-20% YoY in both domestic and overseas markets.
- Defence guidance: Topline is likely to increase 2x YoY to Rs8bn. Revenue from defence can easily reach Rs12bn based on the current level of investments.
- FY24 capex likely at Rs7.5bn of which: Rs3.5bn is likely to be spent for defence, Rs1.5bn is for overseas subsidiaries, and the rest for India operations..

3. PRICE PERFORMANCE (%)

Particulars	3 M	1 Y
Solar Industries	2.00%	-12.99%
Nifty 50	2.38%	8.51%
Nifty 500	3.15%	9.71%

4. CONCALL SUMMARY:

- Orderbook: Defence orderbook at Rs11bn to be executed in 12-18 months. CIL/SCCL orderbook is at Rs18.3bn as of Mar-23. CIL's orderbook is to be executed until Oct'23, post which fresh order inflow is expected.
- The current orderbook for defence comprises export orders for Pinaka rockets, Nagastra LM and other ammunitions. Management expects product evaluation of Pinaka rockets to be completed in 3 months and orders related to Pinaka rockets to provide thrust to defence revenue in the coming years.
- Defence opportunities: Management mentioned that Brahmos booster has been indigenized and the company is participating in Pralaya development. Solar has developed a counter-drone system and is in the process of developing another series of rockets.
- Overseas revenue in FY23: Doubled in all geographies except Ghana.
- Declining raw material prices likely to spill over to explosives prices. However, lower explosives prices would boost demand, particularly in infrastructure segment.
- Other expenses for FY23 include impact of Rs480mn due to hyperinflation.
- Acquisition of Rajasthan Explosives & Chemicals Limited (RECL) is likely to boost volume by 30,000te. RECL reported revenue of Rs2bn in FY22 and has a land bank of 900 acres, which can be utilised for further expansion. Total consideration paid for the asset is Rs700mn.
- Inventory days: Inventory days have fallen to 92 in FY23 (FY22: 122). Expect the same to come down further to 80 days in FY24.
- Working capital days are slightly higher at 95 as at FY23-end compared to 92 in FY22. However, management expects it to reduce to 85 days in FY24 as raw material prices have come off.
- RoE and RoCE levels of 24% and 30% respectively are likely to be maintained

5. VALUATION AND OUTLOOK:

- Company is expected to perform well, going forward, on the back of strong growth exports & overseas operations, steady demand from mining & infra sector and healthy execution in defence segment.
- Better performance from overseas subsidiaries on the back of strong demand, Revenue increase from non-CIL customers in coal segment.
- Defence and export segments picking up due to diversified portfolio.
- Company maintaining a healthy EBITDA margin of 21-22% through to FY25E mainly due to increasing share of the high-margin defence segment and potential uptick in demand from infrastructure segment.
- We initiate BUY rating on stock and value the stock at 35.4x FY25 earnings to arrive at the target of Rs.4389.**

RECOMMENDATION – BUY

CMP –3815

TARGET – 4389 (15%)

Industry	Defence
NSE CODE	SOLARINDS
BSE CODE	532725
Market Cap (₹ Cr)	34522
Shares outstanding (in Cr)	9.05
52 wk High/Low (₹)	4538/2675.05
P/E	45.78
P/BV	13.28
Face Value (₹)	2.00
Book Value (₹)	288.47
EPS (₹)	83.67
Dividend Yield (%)	0.22
Debt / Equity	0.45
Interest coverage	13.19

SHAREHOLDING PATTERN

	June 23	Mar 22	Dec 22
Promoters	73.15	73.15	73.15
Mutual Funds	14.67	13.99	14.10
FII/FPI	5.79	6.63	6.72
Non Institutions	6.04	5.91	5.67
Promoter Pledging	0.00	0.00	0.00

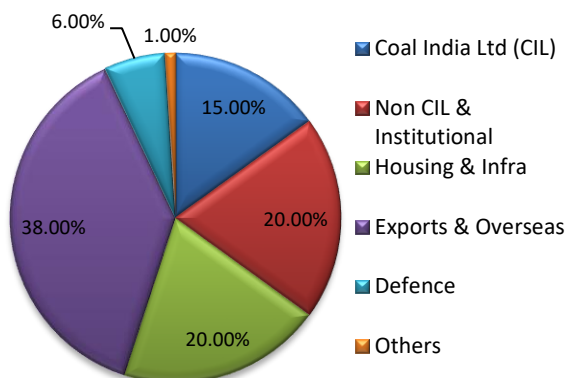
FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2023A	2024E	2025E
Core			
Sales	6922.5	7612	9015
Sales Gr. (%)	75.4	9.95	18.43
EBITDA	1288.9	1523	1804
EBITDA mrg. (%)	19.1	20.00	20.01
PAT	811.2	942	1122
EPS (₹)	83.7	104.1	123.98
EPS Gr. (%)	71.6	24.4	19.09
Ratios			
RoE (%)	35.9	29.8	28.4
RoCE (%)	36.3	34.5	39.8
Valuation			
P/E (x)	44.4	38.7	35.4
Net Debt/ equity	0.45	0.42	0.36

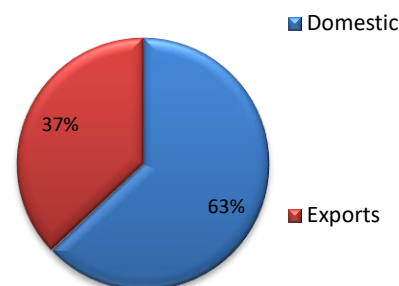
Particulars	TTM	5 Yr Avg
Historical P/E :	45.8	42.4
Industry P/E :	33.8	
Historical P/B :	13.3	9.5
Industry P/B :	4.9	

REVENUE SPLIT (%) Q4 FY23

Customer-wise revenue Mix (in %)



Revenue Mix (%)



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY22				FY23				FY24	FY23	FY24E*
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE*		
Net sales	825	788	1018	1317	1616	1567	1812	1929	1902	6923	7612
YoY change (%)	68.02	34.13	57.60	66.40	95.78	98.89	77.99	46.45	17.69	75	9.95
Total Expenditure	651	656	840	1054	1333	1268	1462	1572	1495	5634	6089
EBITDA	175	132	178	263	283	299	350	357	407	1289	1523
Margins (%)	21	17	17	20	18	19	19	19	21.39	19	20.00
Depreciation	25	27	27	30	31	30	32	35	36	128	171
Interest	10	12	13	15	14	19	25	31	34	90	115
Other income	1	11	7	1	9	4	7	11	13	32	35
PBT	140	104	144	219	247	254	299	302	350	1102	1272
Tax	39	29	39	44	64	65	80	81	92.75	291	330
Rate (%)	28	28	27	20	26	26	27	27	26.5	26.0	25.94
Adjusted PAT	101	75	105	175	183	189	219	221	257.25	811	942
YoY change (%)	129.36	10.56	29.02	83.91	81.11	152.36	108.73	26.33	40.57	78.24	3.82
Key Performance Indicator											
RM Cost (% of Sales)	57	56	59	62	66	60	64	62	-	63	-
Staff Cost (% of Sales)	8	8	7	7	5	6	5	5	-	5	-
Other Costs (% of Sales)	35	36	34	31	29	34	31	33	-	14	-
EBITDA Margin (%)	21	17	17	20	18	19	19	19	21.39	19	20.00
PAT Margin (%)	12	9	10	13	11	12	12	11	13.53	11.72	12.38

Source: Company, Hem Securities Research.

*Insights into the assumptions:

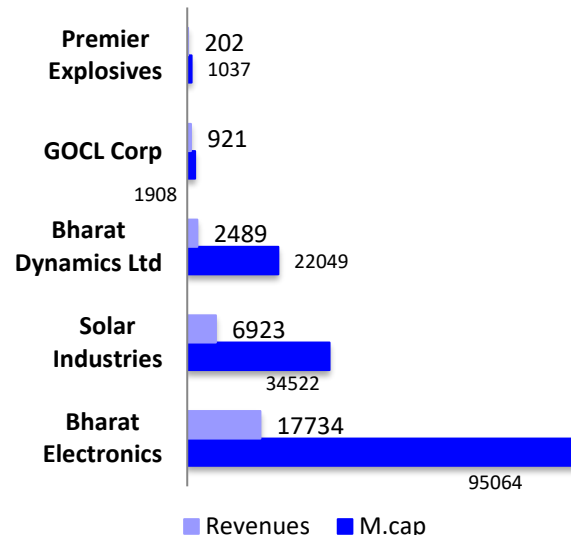
- 1> Expected to see sharp growth in FY24 on the back of Owning to the improving demand dynamics and a strong sales performance in FY23.
- 2> We expect EBITDA and PAT margins to improve in line with dedicated cost cutting efforts by the company.



INDUSTRY OVERVIEW

- Strategic electronic market of India stood at approximately USD 600 cr in 2019 and is expected to touch USD 1500 cr by 2032, driven by the rise in indigenous manufacturing modern featured weapon systems, procurement of advanced weapons systems and rejuvenation of existing product/weapons systems.
- With Government initiatives, the expenditure on defence procurement from foreign sources which used to be 46 % of the overall expenditure has reduced to 36 % in the last four years i.e. 2018-19 to 2021-22.
- The share of domestic procurement in overall defence procurement is about 60%. In order to enhance procurement from domestic industry, it is incumbent that procurement is doubled from the current Rs.70,000 crore to Rs.1,40,000 crore by 2025.
- Defence exports grew by 334 % in last five years; India now exporting to over 75 countries due to collaborative efforts.
- Under the Atmanirbhar Bharat Initiative, four positive indigenization lists of 411 products have been prepared by Department of Military Affairs and Ministry of Defence to be manufactured domestically for the defence sector, instead of being sourced via imports.
- India has around 194 defence tech startups building innovative tech solutions to empower and support the country's defence efforts grow to at a CAGR of 5.68% from FY16 to FY22.

KEY PLAYERS



PEER PERFORMANCE

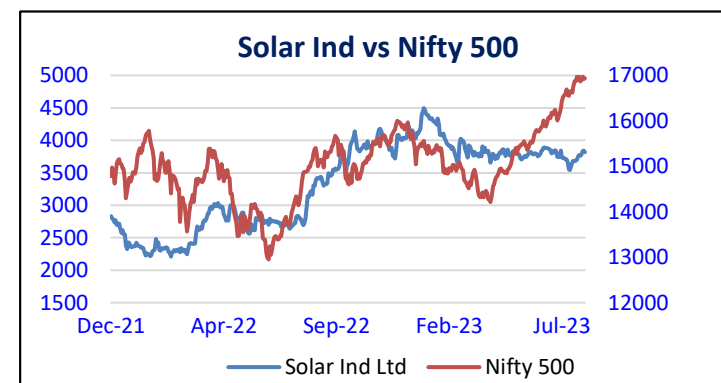
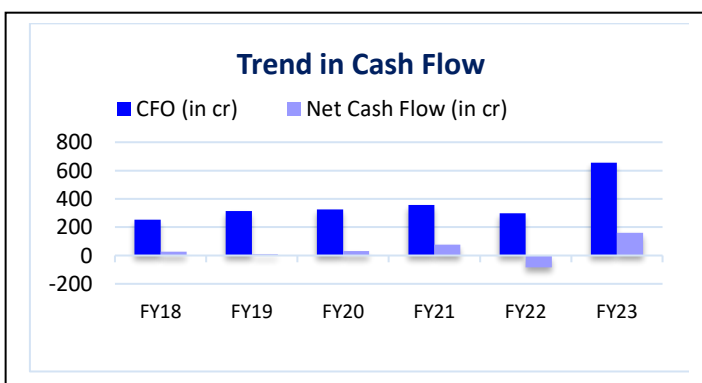
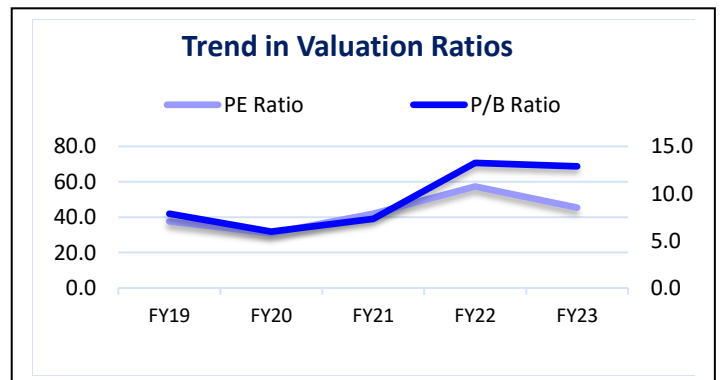
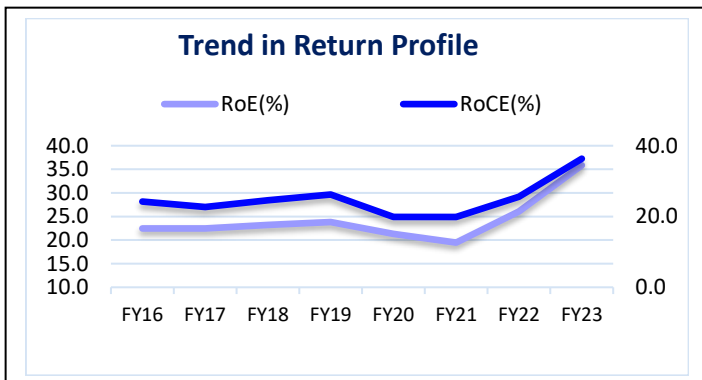
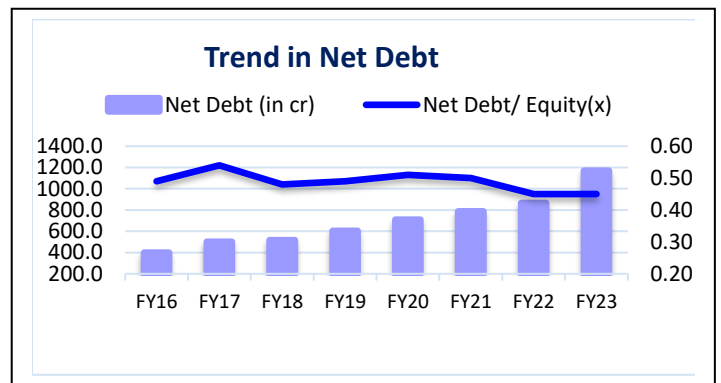
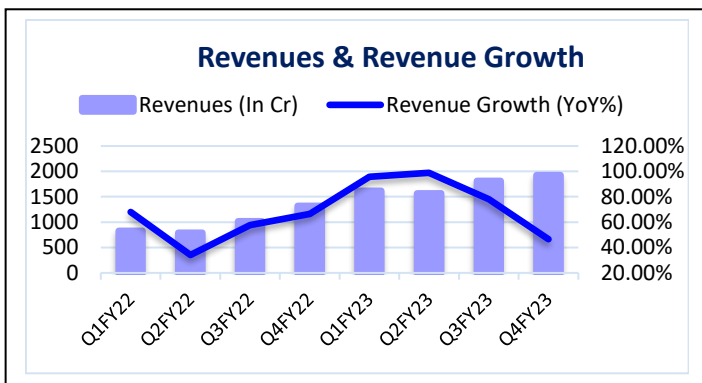
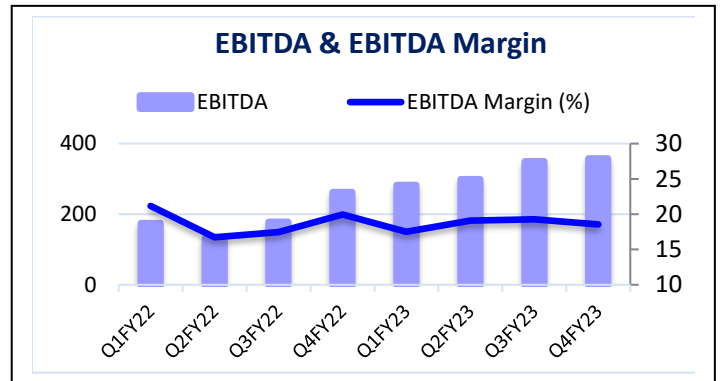
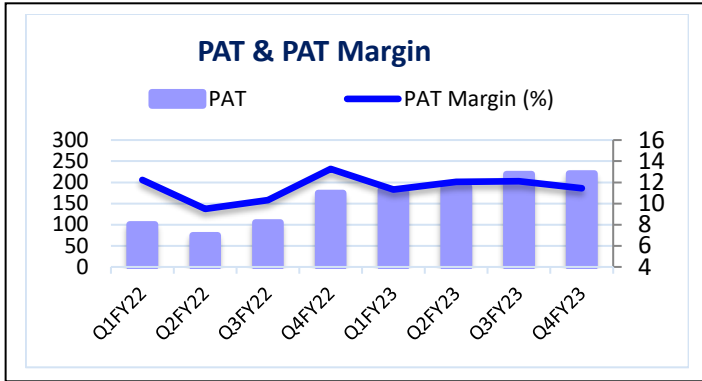
(₹ Cr)

Particulars	Solar Industries	GOCL Corp	Premier Explosives	Bharat Electronics	Bharat Dynamics Ltd
Market Cap	34522	1908	1037	95064	22049
Net Sales	6922.53	921	202	17734	2489
EBITDA	1288.92	-21	26	4086	408
PAT	811.17	211	7	2986	352
EPS (Rs)	83.67	42.59	6.21	4.08	19.21
EBITDA MARGIN %	19.07	-2	13	23	16
PAT MARGIN %	11.72	22.91	3.47	16.84	14.14
ROCE %	36.34	17.38	8.53	26.38	7.52
ROE %	35.86	14.98	3.54	21.53	10.96
P/E	45.78	6.92	62.98	23.85	51.44
P/B	79.00	1.03	2.23	5.14	5.64
EV/EBITDA	13.28	6.71	18.19	14.48	25.31
Debt to Equity	0.21	1.25	0.43	0.00	0.00
Return on assets	5.01	6.02	1.94	8.40	4.06

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- Solar Industries Ltd's topline and profit is constantly growing from last 10 years. Compounded sales growth for 5 years 29% with compounded profit growth for 5 years is 28%.
- Company is a dominant player in industrial explosives, controlling a significant one fourth of this market in India. It is well poised to sustain its dominance with in domestic explosives volumes over FY23-26.
- Company's overseas manufacturing base is likely to help growth with a 15% revenue CAGR over FY23-26. Another contributing factor pushing up its revenue base is its transition to becoming a comprehensive, integrated manufacturer of advanced weaponry, from being a key supplier of defence consumables earlier.
- Current market share of the company is around 24% and in last 10 years their market share has increased from 17%-18% to 24%. In coming future it is moving towards around 30% on all India basis. SOIL has established itself in the niche explosives business, capturing a formidable 25% market share in India and a significant presence among top players in the global arena. We expect it to remain a dominant force in this segment due to the absence of other contenders with a similar scale, stringent regulations that act as a high entry barrier, and large repeat business due to the sensitive nature of the product.
- Company had given a guidance of around 65% growth for FY22-23, however they superseded the top line by 75%. They are projecting a same growth of 65-75% in their revenues for FY2023-24. Also, Domestic and Overseas Volume growth guidance is 18% for FY 24.
- The management expects a guided to double the current defence revenue of 400 cr to 800 cr in FY24.
- Management guidance for EBITDA Margin guidance of FY 24 is 21-22% from the current 18%.
- Company have almost doubled in last four years and they expect to maintain the same kind of growth rate in the next four to five years.
- Overall company is fundamentally strong with consistent profit growth as well as sales growth plus margins are also strong with consistent growth. Right now defence contributes only 8%-9% of revenue but company plans to expand in this space and also government has identified the defence sector as one of the key areas for boosting 'AtmaNirbhar Bharat, or Self- Reliant India' By 2025.

RISK FACTORS:

- Ramp-up in overseas operations get delayed.
- No meaningful traction witnessed in defence revenues and Further rise in raw material prices.

COMPANY RECAP

- Solar Industries is one of the world leading manufacturers of bulk explosives, packaged explosives and initiating systems, which find applications in the mining, infrastructure and construction industries. Company also ventured into the defense segment in 2010 and diversified into manufacturing of propellants for missiles and rockets, warheads and warhead explosives. The Co. is also engaged in manufacturing activities related to interiors, glazing and metal works, and concrete products.
- Product wise revenue:-
 - **Explosives:** 76% (The explosives manufactured by the company is used by a wide range of segments from the Mining Industry to the Housing and Real estate industry and with its presence spread across 51+ nations, Solar Industries is one of the world's leading Explosives Manufacturer).
 - **Initiating Systems :** 15%
 - **Defense :** 9% (The explosives manufactured by the company is used by a wide range of segments from the Mining Industry to the Housing and Real estate industry and with its presence spread across 51+ nations, Solar Industries is one of the world's leading Explosives Manufacturer).
- Customer-wise revenue mix (in %) consolidates: Coal India Ltd: 17%, Non CIL Ltd & Institutional: 10%, Housing & Infra: 26%, Exports & Overseas: 42%, Defence: 5% and Others : 1%.
- Market share: Varies between 24% and 30%. In the last 10 years their market share has definitely increased from 17% to 18% to almost 24% to 25% and now it is moving towards around 30% on all India basis.
- International Market: A growing international footprint with presence in 65 countries and manufacturing facilities in 7 countries.
- Company raw material is Ammonium Nitrate and By and large 80% they are sourcing from the local market and 20% from the sources especially in Russia and local.
- Geographical Revenue Mix: India- 46% and International-54%.
- The Manufacturing facilities have the capacity to produce more than 4,50,000 MT of explosives.
- Products of the company
 - 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 Ignitioris.

ANNUAL PERFORMANCE
Financials & Valuations
Income Statement

	2018	2019	2020	2021	2022	2023	2024E	2025E
							(₹ Cr)	
March	2018	2019	2020	2021	2022	2023	2024E	2025E
Revenue from operations	1916	2461.57	2237.3	2515.6	3947.6	6922.5	7612	9015
Growth YoY (%)	21	28.47	-9.1	12.4	56.9	75.4	9.95	18.43
Total Expenditure	1505	1959.63	1803.0	2001.0	3213.1	5633.6	6089	7211
(%) of sales	78.55	79.61	80.6	79.5	81.4	81.4	79.99	79.98
EBITDA	412	501.94	434.3	514.6	734.6	1288.9	1523	1804
EBITDA Growth (%)	27.16	21.95	(8.0)	12.8	43.1	72.2	18.15	18.45
EBITDA Margin (%)	21	20.67	20.9	21.0	19.2	19.1	20.00	20.01
Depreciation	51	58.89	84.5	93.5	109.3	128.2	171	207
EBIT	361	466.79	420.3	490.6	716.7	1230.1	1352	1597
Growth (%)	26.67	21.31	(13.5)	13.2	48.6	81.2	9.92	18.12
Interest Expenses	33	49.87	55.0	45.4	50.3	90.4	115	118
Other Income	12	14.72	41.1	21.4	32.4	31.5	35	38
Exceptional Items	-	-6.05	-	-	-	-	-	-
Earnings before Taxes	340	401.85	335.8	397.1	607.4	1101.6	1272	1517
Growth (%)	25.5	18.2	-16.4	18.3	52.96	81.36	15.47	19.26
EBT Margin (%)	17.75	16.08	14.7	15.6	15.2	15.9	16.71	16.83
Tax-Total	106	125.05	57.1	109	152	290.4	330	395
Rate of tax (%)	31	31.12	17	27.5	25	26.4	25.94	26.04
Net Profit	234	276.80	278.7	288.1	455.5	811.2	942	1122
Growth (%)	20	18.50	0.7	3.4	58.1	78.1	3.82	19.11
PAT Margin (%)	12.21	11.07	12.2	11.3	11.4	11.7	12.38	12.45
EPS	24.37	28.91	29.6	30.5	48.8	83.7	104.1	123.98
EPS Growth (%)	18.24	18.62	2.2	3.3	59.7	71.6	24.4	19.09

Balance Sheet

Y/E March	2018	2019	2020	2021	2022	2023
Equity Share Capital	18	18	18	18	18	18
Reserves & Surplus	1066	1220	1362	1561	1896	2592
Total Shareholder's Funds (A)	1084	1238	1380	1579	1914	2610
Long Term Borrowings	196	152	253	433	436	473
Non-Controlling Interest	-	-	-	-	-	-
Total Non-Current Liabilities (B)	196	152	253	433	436	473
Advance from customers	1	0	0	0	3	0
Trade Payables	143	163	154	286	465	488
Other Liability Items	563	700	694	661	811	1337
Total Current Liabilities (C)	707	863	848	926	1279	1825
Total Equity and Liabilities (A+B+C)	1987	2253	2481	2959	3629	4908
Property, Plant & Equipment	923	1043	1209	1288	1493	1702
Capital Work in progress	107	178	165	293	230	282
Investments	17	33	2	1	18	99
Total Non-Current Assets (A)	1047	1254	1376	1582	1741	2083
Inventory	232	283	331	440	719	1098
Debtors	364	399	370	455	541	825
Cash and Bank Balance	69	92	120	181	99	260
Loans and advances	13	5	5	5	10	14
Other Current Assets	262	222	278	296	519	629
Total Current Assets (B)	940	1000	1105	1378	1888	2826
Total Assets(A+B)	1987	2253	2481	2959	3629	4908

Source: Company, Hem Securities Research.



Ratios						
Y/E March (Basic (INR))	2018	2019	2020	2021	2022	2023
Profitability and return ratios						
Net profit margin (%)	11.90	11.07	12.24	11.30	11.43	11.72
EBITDA margin (%)	21.58	20.67	20.87	21.02	19.25	19.07
EBIT margin (%)	18.97	18.07	17.16	17.35	16.51	17.22
ROE (%)	23.21	23.84	21.29	19.47	26.07	35.86
ROCE (%)	24.57	26.24	19.89	19.87	25.56	36.34
Working Capital & liquidity ratios						
Payables (Days)	39.92	39.94	46.37	51.02	38.93	25.49
Inventory (Days)	38.44	37.61	49.18	55.21	53.10	47.90
Receivables (Days)	63.47	55.68	61.65	59.10	45.64	36.02
Current Ratio (x)	1.44	1.33	1.34	1.50	1.49	1.53
Valuations Ratios						
EV/sales (x)	5.30	4.16	3.94	4.84	6.62	4.99
EV/EBITDA (x)	23.98	19.84	18.56	22.71	34.08	26.16
P/E (x)	44.03	37.23	6.00	41.86	57.50	44.14
P/BV (x)	8.96	7.87	5.97	7.32	13.25	12.88
Dividend Yield (%)	0.56	0.65	0.66	0.47	0.27	0.22
Return on Assets (%)	12.59	13.05	11.77	10.59	13.83	19.00
Leverage Ratio						
Debt/Equity (x)	0.8	0.49	0.51	0.50	0.45	0.45

Cash Flow Statement

Y/E March	2018	2019	2020	2021	2022	2023
CF from Operating activities (A)	118	314	325	357	298	656
CF from Investing Activities (B)	-170	-202	-212	-251	-303	-519
CF from Financing Activities (C)	-53	-52	-34	-26	-45	118
Net Cash Flow	27	60	79	80	-50.6	256
Add: Opening Bal.	0	52	61	93	170	85
Closing Balance	27	61	93	170	85	245

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
28 th July 2023	BUY	4389

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