

May 22, 2025

Defence segment to lead growth ahead...

About the stock: Solar Industries is one of the largest domestic manufacturers of bulk and cartridge explosives, detonators, detonating cords and components which find applications in the mining, infrastructure, construction industries

- Product range includes packaged explosives, initiating systems, UAS drones, ammunitions, military explosives, rocket integration, space motors, bombs and warheads
- In FY25, ~39% of revenue was from industrial explosives (bulk and cartridge), ~36% from export and overseas, ~20% from defence and remaining ~5% from initiating systems & others

Investment Rationale:

- Strong growth expected in defence segment:** Defence remains the fastest growing segment for the company (revenue CAGR 68% over FY21-25), led by strong order inflows, healthy execution and focus on continuously expanding portfolio. With an order backlog of ~Rs 15200 crore (11.2x FY25 defence revenue) along with robust pipeline, we believe that there is strong growth visibility in this segment. Company anticipates huge opportunity for its defence products across global markets and expect defence revenue at Rs 8000 crore in next 4-5 years (40%+ CAGR). Company has planned a capex of Rs 2500 crore for FY26 with focus on further expansion of product portfolio. The company had also entered into an MoU with the Government of Maharashtra to initiate the Anchor Mega Defence & Aerospace Project in Nagpur with an investment of around Rs 12,700 crores (over the next 10 years), aimed at enhancing defence products like Drones, UAVs, Counter Drone systems, energetic materials, New Generation Explosives, and new Military transport Aircraft. We estimate defence segment revenue share to increase substantially to 31% by FY27E (from 18% in FY25)
- Well poised to see significant recovery in explosives & exports/overseas segment:** With market leading share of ~25% in domestic industrial explosives market, we believe that company is well poised to grow steadily led by healthy demand prospects from segments like mining, housing and infrastructure. Company witnessed some recovery in explosives segment during FY25, led by 7% volume growth with improvement in realisation. With an order backlog of Rs 1800+ crore in explosives and stable raw material prices, we expect ~15% revenue CAGR in this segment over FY25-27E. In exports/overseas segment also, we expect a further recovery over FY26-27E, led by rising exports inflows with further sizable opportunities

Rating and Target Price

- We believe Solar Industries is well positioned to witness healthy growth in the coming period, led by strong sector tailwinds. We estimate revenue & PAT to grow at ~26% & ~31% CAGR respectively over FY25-27E.
- We recommend BUY on SIL with target price of ₹ 16310 (based on 72x P/E on FY27E EPS)



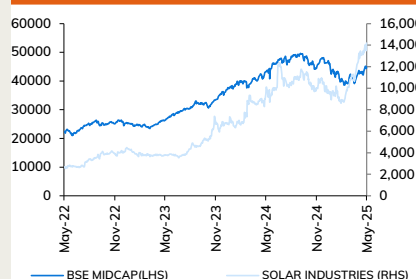
Particulars

Particular (Rs crore)	Amount
Market Capitalization	1,28,161
Total Debt (FY25)	939
Cash (FY25)	725
EV (FY25)	1,28,375
52 week H/L	14340 / 7888
Equity capital	18
Face value	2

Shareholding pattern

	Jun-24	Sep-24	Dec-24	Mar-25
Promoter	73%	73%	73%	73%
FII	8%	8%	7%	6%
DII	13%	13%	13%	14%
Others	7%	7%	7%	7%

Price Chart



Key risks

- Delay in orders from govt
- Volatility in ammonium nitrate prices
- Availability of raw materials

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Key Financial Summary

(Year-end March)	FY22	FY23	FY24	FY25	3 Year CAGR (FY22-FY25)	FY26E	FY27E	2 Year CAGR (FY25-FY27E)
Revenue	3,947.6	6,922.5	6,069.5	7,540.2	24.1	9,979.2	12,009.9	26.2
EBITDA	747.3	1,288.9	1,369.2	1,960.3	37.9	2,670.3	3,372.3	31.2
EBITDA margin (%)	18.9	18.6	22.6	26.0		26.8	28.1	
Net Profit	441.3	757.5	835.6	1,203.9	39.7	1,631.3	2,049.8	30.5
EPS (₹)	48.8	83.7	92.3	133.0		180.3	226.5	
P/E (x)	290.4	169.2	153.4	106.5		78.6	62.5	
EV/EBITDA (x)	172.5	100.1	94.0	65.2		48.4	38.1	
RoCE (%)	21.7	29.1	26.7	27.6		29.6	30.0	
RoE (%)	23.1	29.0	25.3	27.4		28.5	26.6	

Source: Company, ICICI Direct Research

Q4 and FY25 Result Summary

- Operational performance during the quarter remains healthy on YoY basis, led by exports and defence revenue. Revenue increased by 34.5% YoY (+9.8% QoQ) to Rs 2166.6 crore
- Exports revenue (36% of total) increased by 30% YoY (flattish on QoQ basis) to Rs 764 crore Defence segment revenue (20% of total) increased significantly by 122% YoY (+5% QoQ) to Rs 420 crore. Explosives segment revenue (39% of total) was up 14% YoY (+20% QoQ) to Rs 839 crore
- EBITDA margin also improved substantially by 295 bps YoY (-178 bps QoQ) to 24.9%, led by execution of higher margin products
- Subsequently, absolute EBITDA grew by 52.6% YoY (+2.5% QoQ) to Rs 539.7 crore. PAT was up 42.6% YoY (+2.6% QoQ) to Rs 346.1 crore
- For FY25, revenue is up 24.2% YoY at Rs 7540.2 crore with EBITDA margin standing at 26% (vs 22.6% in FY24). The EBITDA for the year stood at Rs 1960.3 (+43% YoY) while the PAT stood at Rs 1287.9 crore (+47.2% YoY)

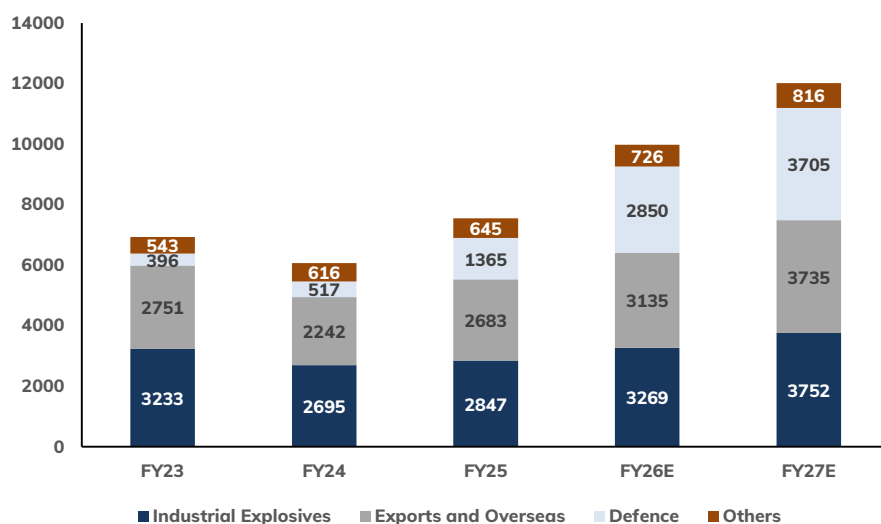
Q4 and FY25 Earnings call highlights

- Order backlog stands at ~Rs 17000 crore as of March'25 end (~Rs 15200 crore defence and ~Rs 1800 crore industrial). Order inflows during the FY25 stands at ~Rs 19411 crore
- The order book now comprises of orders from defence (~Rs 8500 crore international orders and ~Rs 6700 crore domestic orders) and industrial domestic orders
- The company has projected its revenue guidance to be approximately ~Rs 10,000 crore for the FY26E and anticipates an enhancement in EBITDA margin due to high-margin export and defence orders.
- The revenue from defence is expected to be ~Rs 3000 crore for the year, with Rs 500-600 crore expected to be generated from Pinaka orders (amounting to Rs 6000 crore), thereby fulfilling the contract over a period of 10 years. On the explosives side, the management sees a ~15-20% growth
- Regarding the capital expenditure for the year, the company plans a Rs 2500 crore outlook which would be mostly internally accrued and used for investments into new technologies, automation, ammunition range extension and land acquisitions
- The company had also entered into an MoU with the Government of Maharashtra to initiate the Anchor Mega Defence and Aerospace Project in Nagpur with an investment of around Rs. 12,700 Crores, aimed at enhancing defence products like Drones, UAVs, Counter Drone systems, energetic materials, New Generation Explosives, and new Military transport Aircraft.
- Management expects repeat and new orders for Nagastra 1, (loitering munition) while Nagastra 2 and 3 are in development stages. Bhargavastra (anti-drone missile) has completed two trial stages and is set to enter production by 2025.
- Management anticipates significant revenue growth from the defence sector, predicting it will reach Rs 8000 crore in the next 4-5 years. Furthermore, a total revenue of ~Rs 20000 crore is achievable in the 4 years

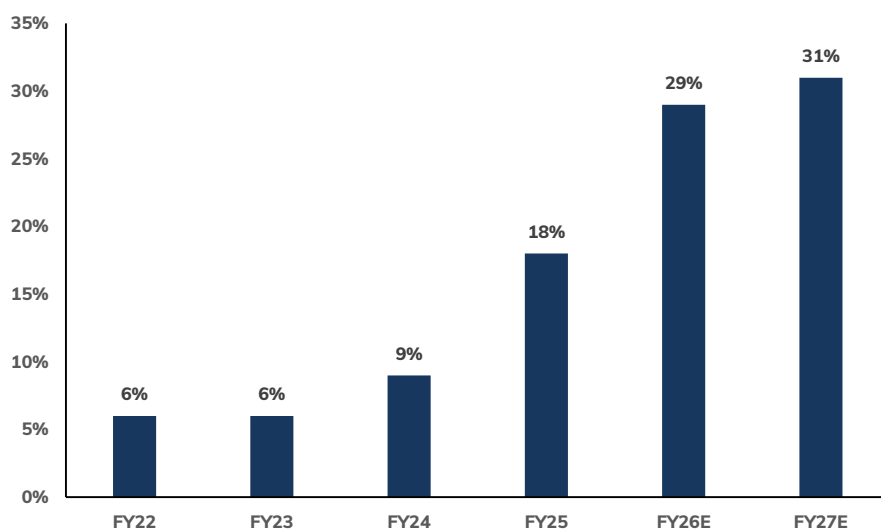
Exhibit 1: Q4FY25 and FY25 result snapshot (₹ crore)

	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	Comments	FY25	FY24	YoY(%)
Operating Income	2,166.6	1,610.7	34.5	1,973.1	9.8	Strong YoY growth was mainly led by exports, defence segments	7,540.2	6,069.5	24.2
Raw materials costs	1,165.5	829.5		1,028.7			3,907.3	3,196.2	
Employees Cost	173.6	118.5		150.7			11,447.5	9,265.7	
Other Expenses	287.8	309.0		267.2			1,072.5	1,070.7	
Total Expenditure	1,626.9	1,257.0		1,446.5			5,579.9	4,700.3	
EBITDA	539.7	353.7	52.6	526.5	2.5		1,960.3	1,369.2	
EBITDA margins (%)	24.9	22.0	295 bps	26.7	-178 bps	EBITDA Margin improved led by rise in share of defence and exports	26.0	22.6	15.2
Depreciation	50.5	37.0		47.4			181.5	143.4	
EBIT	489.2	316.7	54.5	479.1	2.1		1,778.8	1,225.8	45.1
Interest	28.8	31.5		30.5			116.5	109.4	
Other Income	6.6	17.7		9.5			70.8	44.5	
Extra Ordinary Item	2.6	-2.6		-1.0			-5.6	-0.4	
PBT	464.4	305.4		459.1			1,738.7	1,161.3	
Total Tax	118.3	62.7		121.6			450.8	286.1	
PAT	346.1	242.7	42.6	337.5	2.6		1,287.9	875.2	47.2

Source: Company, ICICI Direct Research

Exhibit 2: Segment wise revenue break-up (₹ crore)


Source: Company, ICICI Direct Research

Exhibit 3: Share of defence segment revenue to increase substantially


Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Revenue	6,070	7,540	9,979	12,010
Growth YoY (%)	(12.3)	24.2	32.3	20.3
Raw Material Expenses	3,196	3,907	5,089	5,945
COGS	52.7	51.8	51.0	49.5
Employee Expenses	433	600	750	900
Other Expenses	1,071	1,073	1,469	1,793
Total Operating Expenditure	4,700	5,580	7,309	8,638
Operating Profit (EBITDA)	1369	1960	2670	3372
Growth YoY (%)	6.2	43.2	36.2	26.3
Interest	109	117	134	161
Other Income	44	71	79	89
PBDT	1,304	1,915	2,616	3,300
Depreciation	143	182	268	350
PBT after Exceptional Items	1,161	1,733	2,348	2,950
Total Tax	286	451	610	767
PAT before MI	875	1,282	1,737	2,183
Minority Interest	39	78	106	133
PAT	836	1204	1631	2050
Growth YoY (%)	10.3	44.1	35.5	25.7
EPS	92	133	180	227

Source: Company, ICICI Direct Research

Exhibit 5: Cash Flow Statement

(Year-end March)	FY24	FY25	FY26E	FY27E
Profit after Tax	836	1,204	1,631	2,050
Add: Depreciation	143	182	268	350
Add: Interest Paid	109	117	134	161
Cash Flow before WC changes	1,088	1,502	2,033	2,561
(Increase)/Decrease in inventory	251	(193)	(327)	(278)
(Increase)/Decrease in debtors	(20)	(394)	(265)	(306)
(Increase)/Decrease Loan & Advances	9	1	-	-
(Increase)/Decrease in CA	(167)	(135)	(190)	(158)
Net Increase in Current Assets	74	(720)	(782)	(742)
Net Increase in Current Liabilities	44	588	356	376
Net CF from operating activities	1,206	1,370	1,607	2,194
(Purchase)/Sale of Fixed Assets	(656)	(948)	(2,500)	(1,200)
Inc / (Dec) in Deferred Tax Liability	39	21	-	-
Net CF from Investing Activities	(865)	(526)	(2,081)	(1,291)
Proceeds/(Repay) Secured Loan	(64)	(166)	350	-
Proceeds/(Repay) Unsecured Loan	-	-	-	-
(Payment) of Dividend	(77)	(90)	-	-
Interest Paid	(109)	(117)	(134)	(161)
Net CF from Financing Activities	(314)	(406)	(68)	(239)
Net Cash flow	27	438	(543)	664
Cash and Cash Eq. (beginning)	260	287	725	182
Cash and Cash Equivalent (end)	287	725	182	846

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Equity Capital	18.1	18.1	18.1	18.1
Reserve and Surplus	3,287	4,368	5,715	7,687
Total Shareholders funds	3,306	4,386	5,733	7,705
Secured Loan	1,105	939	1,289	1,289
Unsecured Loan	-	-	-	-
Total Debt	1,105	939	1,289	1,289
Deferred Tax Liability	198	219	219	219
Minority Interest	122	150	154	169
Total Liabilities	4,757	6,693	8,393	10,380
Gross Block	2,595	3,327	5,030	6,730
Accumulated Depreciation	676	857	1,126	1,476
Net Block	1,919	2,470	3,905	5,255
Capital WIP	487	703	1,500	1,000
Total Fixed Assets	2,407	3,173	5,405	6,255
Inventory	847	1,040	1,367	1,645
Debtors	845	1,239	1,504	1,810
Loans and Advances	3	2	2	2
Other Current Assets	453	587	777	936
Cash	287	725	182	846
Total Current Assets	2,435	3,593	3,833	5,239
Creditors	553	887	1,148	1,382
Provisions	15	24	24	24
Total Current Liabilities	980	1,568	1,924	2,300
Net Current Assets	1,455	2,025	1,909	2,940
Total Assets	4,757	6,693	8,393	10,380

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Per Share Data				
Reported EPS	92.3	133.0	180.3	226.5
Cash EPS	108.2	153.1	209.9	265.2
BV per share	365.3	484.7	633.5	851.4
Dividend per share	8.5	10.0	14.0	16.0
Cash Per Share	74.7	94.7	124.4	163.1
Operating Ratios (%)				
EBITDA Margin	22.6	26.0	26.8	28.1
EBIT / Net Sales	20.2	23.6	24.1	25.2
PAT / Net Sales	13.8	16.0	16.3	17.1
Inventory days	50.9	50.3	50.0	50.0
Debtor days	50.8	60.0	55.0	55.0
Creditor days	33.2	42.9	42.0	42.0
Return Ratios (%)				
RoE	25.3	27.4	28.5	26.6
RoCE	26.7	27.6	29.6	30.0
RoIC	33.7	39.3	37.1	36.3
Valuation Ratios (x)				
P/E	153.4	106.5	78.6	62.5
EV / EBITDA	94.0	65.2	48.4	38.1
EV / Net Sales	21.2	17.0	12.9	10.7
Market Cap / Sales	21.1	17.0	12.8	10.7
Price to Book Value	38.8	29.2	22.4	16.6
Solvency Ratios				
Debt / EBITDA	0.8	0.5	0.5	0.4
Debt / Equity	0.3	0.2	0.2	0.2
Current Ratio	3.7	3.0	3.0	3.0
Quick Ratio	2.2	1.9	1.9	1.9

Source: Company, ICICI Direct Research

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Sell: <-15%



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