

Explosives volume growth remains strong...

About the stock: Solar Industries (SIL) is the largest manufacturer of industrial explosives and explosive initiating systems in India.

- It has a capacity of ~330,000 MT/year. It holds reasonable market share in India of ~30%
- It also leads the exports share from India, which is around 70% in industrial explosive and initiating system
- It exports to 55 countries in the world and has recently expanded its manufacturing base to many African countries

Q3FY23 Results: Strong YoY growth in exports and realisations in domestic explosives; sequentially exports growth remained muted.

- Revenue came in at ₹ 1811.8 crore, up 78.0% YoY & 15.6% QoQ
- EBITDA margins came in at 19.3% (+181 bps YoY; flat QoQ). EBITDA came in at ₹ 349.5 crore, up 96.4% YoY & 16.9% QoQ
- PAT was at ₹ 219.4 crore; up 108.9% YoY & 16.3% QoQ

What should investors do? SIL is expected to perform well, going forward, on the back of strong demand from coal and infra sector along with its foreign subsidiaries.

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value the stock at ₹ 4775, based on 38x P/E for FY25E earnings.

Key triggers for future price performance:

- 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

Alternate Stock Idea: We also like Bharat Electronics in our capital goods coverage.

- Strong order book & healthy pipeline in defence electronics offers strong visibility; diversifying into non-defence to help improve margins
- BUY with a target price of ₹ 135 i.e. 15x P/E on FY24E EPS



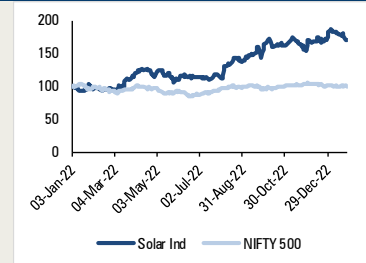
Particulars

Particular	Amount
Market Capitalization	36,920
Total Debt (FY22) (₹ crore)	728
Cash and Inv (FY22) (₹ crore)	99
EV (FY22) (₹ crore)	37,550
52 week H/L (₹) (BSE)	4536 / 2160
Equity capital (₹ crore)	18
Face value (₹)	2

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	73.2	73.2	73.2	73.2
FII	6.3	6.6	6.6	6.7
DII	15.0	14.5	14.3	14.1
Others	5.6	5.8	6.0	6.0

Price Chart



Recent event & key risks

- Increasing defence product portfolio
- **Key Risk:** i) Slowdown in major economies ii) Domestic supply of AN improves

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Key Financial Summary

(Year-end March)	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	FY25E	3 Year CAGR (FY22-FY25E)
Revenue	2,237.3	2,515.6	3,947.6	20.2	6,631.0	7,429.5	8,867.5	30.6
EBITDA	434.3	514.6	747.3	18.8	1,273.1	1,515.6	1,879.9	35.6
EBITDA margin (%)	19.4	20.5	18.9		19.2	20.4	21.2	
Net Profit	267.4	276.4	441.3	18.2	737.3	891.8	1,137.1	36.7
EPS (₹)	29.6	30.5	48.8		81.5	98.5	125.7	
P/E (x)	138.1	133.6	83.7		50.1	41.4	32.5	
EV/EBITDA (x)	86.2	72.6	50.2		29.8	25.0	20.0	
RoCE (%)	17.6	17.6	22.5		29.9	30.1	32.5	
RoE (%)	19.2	17.4	23.9		30.3	28.2	27.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q3FY23 Results: Strong earnings growth continues on YoY basis

- Revenue increased 78.0% YoY to ₹ 1811.8 crore, mainly led by strong growth in the explosives and exports segments. Explosives segment, which contributed ~48% to total revenues grew 70.6% YoY to ₹ 876 crore on account of healthy volume growth of 16.5% YoY and better realisations (+46.4% YoY). Exports, which contributed ~40% to total revenues, also witnessed growth of 93.4% YoY to ₹ 729 crore. Initiating systems segment grew 31.7% YoY to ₹ 133 crore while defence segment revenue grew 50.7% YoY. Sequentially, total revenue increased 15.6%, mainly led by strong growth in explosives segment, which witnessed 39.2% QoQ growth in sales volume
- The 9MFY23 revenue was up 90% YoY to ₹ 4994 crore, led by explosives segment and exports. Explosives segment revenue (~69% of sales for 9MFY23) was up 85% YoY led by 63% YoY increase in explosive realisations and 13% growth in volumes. Exports revenue (40% of sales) was also up 97% YoY
- Gross margins in Q3FY23 contracted by 629 bps YoY to 36.4% due to higher raw material prices on a YoY basis (primarily ammonium nitrate). Sequentially also, gross margins contracted by 398 bps as explosives realisation remained largely flattish on a QoQ basis
- EBIDTA margins for the quarter improved 181 bps YoY to 19.3% despite lower gross margins. This was mainly led by positive operating leverage. Thus, Absolute EBITDA was up 96.4% YoY to ₹ 349.5 crore. The margin remained flattish QoQ and EBITDA was up 16.9% sequentially
- PAT during Q3FY23 increased 108.9% YoY to ₹ 219.4 crore on a strong operational performance. Sequentially, PAT was up 16.3%
- For 9MFY23, EBITDA and PAT were up 89% and 110% YoY to ₹ 952 crore and ₹ 591 crore, respectively

Q2FY23 Earnings Conference Call highlights

- The company has increased its revenue growth guidance to 65%+ for FY23E (previous guidance was 45-50% growth)
- Volume growth guidance remains unchanged at 15-17% for the year. Demand from domestic coal players (Coal India, Singareni Coal) has been decent
- EBITDA margins are expected to be in the range of 18-20% in the coming quarters
- Domestic explosive realisations are expected to correct during the next couple of quarters in line with correction in commodity prices and raw material prices (primarily crude oil and ammonium nitrate). However, the realisations are expected to stabilise post the next two quarters
- Exports revenue is expected to grow in the coming period. EBITDA margin in exports is expected at 18-21%
- Order backlog was at ₹ 3389 crore of which order backlog for defence segment was at ₹ 817 crore and ₹ 2572 crore is from Coal India and Singareni coal
- The company expects the next contract from Coal India by October 2023 and from Singareni Coal by April 2024. Till then, existing contracts in hand will be executed
- The company has participated in various RFPs in the defence segment, which includes RFP for one of the Pinaka variants and RFP for drone based loitering munitions
- The company's intent to offer its products for space applications has also started showing results after the successful launch of Vikram S and static test of PSOM XL rocket motor made for Isro

- Volume growth is expected at 15-20% even in the international markets
- Working capital days were at 100 as of December 2022 and expected to be 90-100 days for FY23E
- Capex during 9MFY23 was at ₹ 350 crore and is expected to be ₹ 450-500 crore for full year FY23
- Capex for the next two years is also expected to be ₹ 450-500 crore per annum, mainly for increasing defence portfolio and increasing geographical presence
- Commercial production at Australia facility is expected to start by Q1FY24. Indonesian unit is already started partially and is expected to start fully by Q1FY24

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Revenues	1,811.8	1,017.9	78.0	1,566.6	15.6	Strong YoY growth was mainly led by exports and higher realisations in domestic explosives
Raw materials costs	1,151.5	599.8	92.0	933.3	23.4	
Employees Cost	91.7	67.4	36.1	86.5	6.0	
Other Expenses	219.1	172.7	26.8	247.8	-11.6	
Total Expenditure	1,462.2	839.9	74.1	1,267.6	15.4	
EBITDA	349.5	178.0	96.4	299.0	16.9	Margins improved YoY on postive operating leverage
EBITDA margins (%)	19.3	17.5	181 bps	19.1	21 bps	
Depreciation	32.0	27.2	17.7	30.4	5.5	
EBIT	317.5	150.8	110.6	268.6	18.2	
Interest	25.5	13.4	89.9	19.4	31.2	
Other Income	7.2	7.1	2.4	4.4	66.1	
Extra Ordinary Item	-0.1	0.0		0.1	0.0	
PBT	299.4	144.4	107.3	253.5	18.1	
Total Tax	80.0	39.4	103.1	64.9	23.3	
PAT	219.4	105.1	108.9	188.6	16.3	

Key Metrics	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	
Ind. explosives volume (MT)	1,22,030	1,04,717	16.5	87,661	39.2	Strong volume growth witnessed on QoQ
Realisation (₹/MT)	71,745	49,004	46.4	70,900	1.2	Realisation remained higher by 46.4% YoY; flat on QoQ
Value (₹ crore)	876	513	70.6	622	40.9	
Initiating Systems (₹ crore)	133	101	31.7	126	5.6	
Export & Overseas (₹ crore)	729	377	93.4	739	-1.4	Exports revenue remained better on YoY; declines marginally on QoQ
Defence (₹ crore)	110	73	50.7	111	-0.9	Multi-Mode Hand grenade propelled defence revenue

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY22	FY23E			FY24E			FY25E		
	Actual	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	3,947.6	6,076.3	6,631.0	9.1	7,281.7	7,429.5	2.0	8,835.8	8,867.5	0.4
EBITDA	747.3	1,166.7	1,273.1	9.1	1,485.5	1,515.6	2.0	1,873.2	1,879.9	0.4
EBITDA Margin (%)	18.9	19.2	19.2	0 bps	20.4	20.4	0 bps	21.2	21.2	0 bps
PAT	441.3	692.8	737.3	6.4	902.6	891.8	-1.2	1,150.1	1,137.1	-1.1
EPS (₹)	48.8	76.6	81.5	6.4	99.7	98.5	-1.2	127.1	125.7	-1.1

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement					
	₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	2,516	3,948	6,631	7,429	8,868
Growth YoY (%)		56.9	68.0	12.0	19.4
Raw Material Expenses	1,347	2,327	4,058	4,235	4,966
COGS	53.5	59.0	61.2	57.0	56.0
Employee Expenses	231	290	371	617	727
Other Expenses	424	583	928	1,062	1,295
Total Operating Expenditure	2,001	3,200	5,358	5,914	6,988
Operating Profit (EBITDA)	515	747	1273	1516	1880
Growth YoY (%)		45.2	70.4	19.0	24.0
Interest	45	50	85	85	65
Other Income	21	20	30	35	35
PBDT	491	717	1,218	1,465	1,850
Depreciation	94	109	127	146	168
PBT after Exceptional Items	397	607	1,090	1,319	1,682
Total Tax	109	152	289	349	446
PAT before MI	288	455	801	969	1,236
Minority Interest	12	14	64	78	99
PAT	276	441	737	892	1137
Growth YoY (%)		59.7	67.1	20.9	27.5
EPS	30.5	49	81	99	126

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement					
	₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Profit after Tax	276	441	737	892	1,137
Add: Depreciation	94	109	127	146	168
Add: Interest Paid	45	50	85	85	65
Cash Flow before WC changes	415	601	950	1,124	1,370
(Increase)/Decrease in inventory	(110)	(278)	(226)	(236)	(229)
(Increase)/Decrease in debtors	(85)	(86)	(513)	(168)	(236)
(Increase)/Decrease Loan & Advances	2	(4)	3	(1)	(1)
(Increase)/Decrease in CA	(12)	(212)	(200)	(59)	(107)
Net Increase in Current Assets	(181)	(626)	(935)	(464)	(573)
Net Increase in Current Liabilities	212	241	190	73	197
Net CF from operating activities	446	216	205	733	994
(Purchase)/Sale of Fixed Assets	(210)	(325)	(450)	(450)	(450)
Inc / (Dec) in Deferred Tax Liability	12	21	-	-	-
Net CF from Investing Activities	(203)	(231)	(390)	(447)	(445)
Proceeds/(Repay) Secured Loan	189	3	157	-	-
Proceeds/(Repay) Unsecured Loan	(163)	81	265	-	(250)
(Payment) of Dividend	(54)	(68)	(72)	(90)	(109)
Interest Paid	(45)	(50)	(85)	(85)	(65)
Net CF from Financing Activities	(97)	(151)	189	(251)	(500)
Net Cash flow	146	(166)	4	35	50
Cash and Cash Eq. (beginning)	128	274	108	112	147
Cash and Cash Equivalent (end)	274	108	112	147	197

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet					
	₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Equity Capital	18.1	18.1	18.1	18.1	18.1
Reserve and Surplus	1,572	1,829	2,419	3,146	4,098
Total Shareholders funds	1,590	1,847	2,437	3,164	4,116
Secured Loan	451	453	610	610	610
Unsecured Loan	194	275	540	540	290
Total Debt	645	728	1,150	1,150	900
Deferred Tax Liability	116	137	137	137	137
Minority Interest	63	76	79	82	87
Total Liabilities	2,509	2,922	3,937	4,666	5,374
Gross Block	1,934	2,234	2,659	3,109	3,559
Accumulated Depreciation	476	585	712	858	1,027
Net Block	1,253	1,457	1,947	2,251	2,533
Capital WIP	282	221	100	100	100
Total Fixed Assets	1,535	1,678	2,047	2,351	2,633
Inventory	440	719	945	1,181	1,409
Debtors	455	541	1,054	1,221	1,458
Loans and Advances	4	8	5	6	7
Other Current Assets	82	294	494	553	660
Cash	181	99	112	147	197
Total Current Assets	1,226	1,769	2,717	3,216	3,839
Creditors	286	465	472	509	607
Provisions	228	290	472	509	607
Total Current Liabilities	532	773	963	1,036	1,233
Net Current Assets	694	996	1,755	2,180	2,606
Total Assets	2509	2922	3937	4666	5374

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data					
Reported EPS	30.5	48.8	81.5	98.5	125.7
Cash EPS	40.9	60.8	95.5	114.7	144.3
BV per share	175.7	204.2	269.4	349.6	454.9
Dividend per share	6.0	6.0	7.5	8.0	10.0
Cash Per Share	52.6	64.6	78.7	94.9	113.5
Operating Ratios (%)					
EBITDA Margin	20.5	18.9	19.2	20.4	21.2
EBIT / Net Sales	16.7	16.2	17.3	18.4	19.3
PAT / Net Sales	11.0	11.2	11.1	12.0	12.8
Inventory days	63.9	66.5	52.0	58.0	58.0
Debtor days	66.1	50.0	58.0	60.0	60.0
Creditor days	41.5	43.0	26.0	25.0	25.0
Return Ratios (%)					
RoE	17.4	23.9	30.3	28.2	27.6
RoCE	17.6	22.5	29.9	30.1	32.5
RoIC	22.1	26.2	32.9	32.8	35.4
Valuation Ratios (x)					
P/E	133.6	83.7	50.1	41.4	32.5
EV / EBITDA	72.6	50.2	29.8	25.0	20.0
EV / Net Sales	14.9	9.5	5.7	5.1	4.2
Market Cap / Sales	14.7	9.4	5.6	5.0	4.2
Price to Book Value	23.2	20.0	15.1	11.7	9.0
Solvency Ratios					
Debt / EBITDA	1.3	1.0	0.9	0.8	0.5
Debt / Equity	0.4	0.4	0.5	0.4	0.2
Current Ratio	1.8	2.0	2.6	2.9	2.9
Quick Ratio	1.0	1.1	1.6	1.7	1.7

Source: Company, ICICI Direct Research

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