

Strong growth led by exports, defence segments...

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

Q4FY23 Results: Strong YoY growth in revenues led by exports and steady growth in explosives volumes.

- Revenue came in at ₹ 1928.5 crore, up 46.5% YoY & 6.4% QoQ
- EBITDA margins came in at 18.5% (-142 bps YoY; -76 bps QoQ). EBITDA came in at ₹ 357.5 crore, up 36% YoY & 2.3% QoQ
- PAT was at ₹ 220.6 crore; up 26.2% YoY (flat QoQ)

What should investors do? SIL 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

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

Target Price and Valuation: We value the stock at ₹ 4700, 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 ₹ 130 i.e. 25x P/E on FY25E EPS



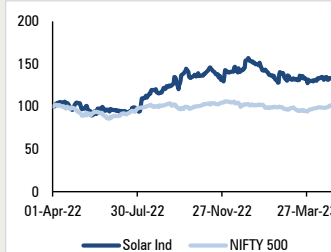
Particulars

Particular	Amount
Market Capitalization	34,775
Total Debt (FY23) (₹ crore)	1,169
Cash and Inv (FY23) (₹ crore)	281
EV (FY23) (₹ crore)	35,664
52 week H/L (₹) (BSE)	4536 / 2470
Equity capital (₹ crore)	18
Face value (₹)	2

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	73.2	73.2	73.2	73.2
FII	6.6	6.6	6.7	6.6
DII	14.5	14.3	14.1	14.3
Others	5.8	6.0	6.0	5.9

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	FY23	3 Year CAGR (FY20-FY23)	FY24E	FY25E	2 Year CAGR (FY23-FY25E)
Revenue	2,237.3	2,515.6	3,947.6	6,922.5	45.7	7,687.6	9,269.1	15.7
EBITDA	434.3	514.6	747.3	1,288.9	43.7	1,560.6	1,946.5	22.9
EBITDA margin (%)	19.4	20.5	18.9	18.6		20.3	21.0	
Net Profit	267.4	276.4	441.3	757.5	41.5	880.7	1,119.6	21.6
EPS (₹)	29.6	30.5	48.8	83.7		97.3	123.7	
P/E (x)	130.0	125.8	78.8	45.9		39.5	31.1	
EV/EBITDA (x)	81.2	68.7	47.6	27.7		23.0	18.4	
RoCE (%)	17.6	17.3	21.7	29.1		30.5	31.6	
RoE (%)	19.2	17.5	23.1	29.0		27.8	27.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q4FY23 Results: Strong growth in revenues led by defence segment, exports

- Revenue increased 46.5% YoY to ₹ 1928.5 crore, mainly led by strong growth in the defence and exports segments. Explosives segment, which contributed ~47% to total revenues grew ~15% YoY to ₹ 903 crore on account of healthy volume growth of 13% YoY. Exports, which contributed ~38% to total revenues, witnessed growth of 90% YoY to ₹ 737 crore. Defence segment (6% of sales) revenue grew 54% YoY to ₹ 111 crore. Sequentially, revenue increased 6.4%
- FY23 revenue was up 75.4% YoY to ₹ 6922.5 crore as all major segments (explosives, defence and exports) witnessed strong growth. Explosives segment revenue increased sharply by 58% as the explosives realisations remained higher (+39% YoY growth) with 13% volume growth. Exports and defence segments revenues are up 95% YoY and 59% YoY, respectively
- Gross margin at 38.3% remained largely flattish on a YoY basis. However, sequentially the gross margin has improved by 181 bps in Q4FY23 led by decline in raw material (Ammonium Nitrate) prices
- EBIDTA margins for the quarter contracted 142 bps YoY (-76 bps QoQ) to 18.5%; mainly on account of higher others cost. EBITDA was up 36% YoY (+2.3% QoQ) to ₹ 357.5 crore. FY23 EBITDA was up 72.5% YoY at ₹ 1288.9 crore on account of strong growth in revenues
- PAT increased 26.2% YoY (flat sequentially) to ₹ 220.6 crore. FY23 PAT was up 78.1% YoY at ₹ 811.2 crore
- Current order backlog was at ₹ 2944 crore, which includes ₹ 1826 crore backlog in explosives segment (from Coal India and Singareni Coal) and ₹ 1118 crore backlog in the defence segment

Q4FY23 Earnings Conference Call highlights

- The current order backlog is at ₹ 2944 crore, which includes ₹ 1826 crore backlog in explosives segment (from Coal India and Singareni Coal) and ₹ 1118 crore backlog in the defence segment
- Explosives volume growth is expected at 15-20% for FY24E. Demand from domestic coal players (Coal India and Singareni Coal) has been healthy. Demand from domestic housing and infra market is also expected to pick up considering decline in explosives prices. Volume growth is expected at 15-20% in international markets also
- EBITDA margin was impacted in Q4FY23 due to currency fluctuations and inflationary condition in some overseas markets. EBITDA margins are expected to be in the range of 21-22% for FY24E
- Domestic explosive realisations are expected to remain soft during H1FY24E in line with correction in raw material prices (ammonium nitrate). However, realisations are expected to stabilise in H2FY24
- Revenue from the defence segment is expected to double from ~₹ 400 crore in FY23 to ₹ 800 crore in FY24. The export order of Pinaka rockets will be completed in FY24E
- The contract for explosives from Coal India is till October 2023. The company expects the next contract from Coal India post completion of this contract. Till then, the existing contracts in hands will be executed

- The company has participated in various RFPs in the defence segment, which includes RFP for one of the Pinaka variants. Moreover, there are some products under development in defence segment (like loitering munitions, high mobility long range precision rocket systems, counter-drone system)
- Capex will be ₹ 750 crore for FY24E, of which ₹ 350 crore is for the defence segment, ₹ 150 crore for overseas operations and ₹ 250 crore for domestic explosives segment. Capex for FY25E would be ₹ 600-700 crore for FY25E
- The recently acquired company (Rajasthan Explosives) has a capacity of 30,000 tonnes, which can be increased in future. The revenue was at ~₹ 200 crore per annum

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Revenues	1,928.5	1,316.9	46.5	1,811.8	6.4	Strong YoY growth was mainly led by exports, defence segments and better explosives volumes
Raw materials costs	1,190.7	816.2	45.9	1,151.5	3.4	
Employees Cost	99.3	88.7	11.9	91.7	8.2	
Other Expenses	281.1	149.1	88.6	219.1	28.3	
Total Expenditure	1,571.1	1,054.0	49.1	1,462.2	7.4	
EBITDA	357.5	262.8	36.0	349.5	2.3	
EBITDA margins (%)	18.5	20.0	-142 bps	19.3	-76 bps	EBITDA Margin contracted due to higher others cost
Depreciation	35.3	29.6	19.2	32.0	10.3	
EBIT	322.2	233.2	38.1	317.5	1.5	
Interest	31.2	14.8	111.4	25.5	22.7	
Other Income	11.3	0.8	1,372.7	7.2	56.6	
Extra Ordinary Item	0.2	0.0		-0.1	0.0	
PBT	302.0	219.2	37.8	299.4	0.9	
Total Tax	81.4	44.4	83.5	80.0	1.8	
PAT	220.6	174.8	26.2	219.4	0.5	

Key Metrics	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	
Ind. explosives volume (MT)	1,35,007	1,19,536	12.9	1,22,030	10.6	Volume growth remained steady YoY
Realisation (₹/MT)	66,913	65,948	1.5	71,745	-6.7	Realisations declined QoQ as raw material prices softens
Value (₹ crore)	903	788	14.6	876	3.2	
Initiating Systems (₹ crore)	169	117	44.4	133	27.1	
Export & Overseas (₹ crore)	729	389	87.6	739	-1.4	Exports revenue growth remained strong on YoY
Defence (₹ crore)	111	72	53.6	110	0.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

₹ Crore)	FY23		FY24E		FY25E		
	Actual	Old	New	% Change	Old	New	
Revenue	6,922.5	7,429.5	7,687.6	3.5	8,867.5	9,269.1	4.5
EBITDA	1,288.9	1,515.6	1,560.6	3.0	1,879.9	1,946.5	3.5
EBITDA Margin (%)	18.6	20.4	20.3	-10 bps	21.2	21.0	-20 bps
PAT	757.5	891.8	880.7	-1.2	1,137.1	1,119.6	-1.5
EPS (₹)	48.8	98.5	97.3	-1.2	125.6	123.7	-1.5

Source: ICICI Direct Research, Company

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Revenue	3,948	6,923	7,688	9,269
Growth YoY (%)	56.9	75.4	11.1	20.6
Raw Material Expenses	2,327	4,342	4,651	5,515
COGS	59.0	62.7	60.5	59.5
Employee Expenses	290	353	415	510
Other Expenses	583	939	1,061	1,298
Total Operating Expenditure	3,200	5,634	6,127	7,323
Operating Profit (EBITDA)	747	1289	1561	1947
Growth YoY (%)	45.2	72.5	21.1	24.7
Interest	50	90	120	120
Other Income	20	32	35	35
PBDT	717	1,230	1,476	1,862
Depreciation	109	128	173	208
PBT after Exceptional Items	607	1,102	1,303	1,654
Total Tax	152	290	345	438
PAT before MI	455	811	957	1,216
Minority Interest	14	54	77	96
PAT	441	757	881	1120
Growth YoY (%)	59.7	71.7	16.3	27.1
EPS	49	84	97	124

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	441	757	881	1,120
Add: Depreciation	109	128	173	208
Add: Interest Paid	50	90	120	120
Cash Flow before WC changes	601	976	1,174	1,447
(Increase)/Decrease in inventory	(278)	(379)	(166)	(260)
(Increase)/Decrease in debtors	(86)	(284)	(123)	(322)
(Increase)/Decrease Loan & Advances	(4)	(4)	-	-
(Increase)/Decrease in CA	(149)	8	(32)	(65)
Net Increase in Current Assets	(518)	(659)	(320)	(647)
Net Increase in Current Liabilities	184	248	79	193
Net CF from operating activities	267	565	933	993
(Purchase)/Sale of Fixed Assets	(480)	(384)	(750)	(650)
Inc / (Dec) in Deferred Tax Liability	21	22	-	-
Net CF from Investing Activities	(542)	(555)	(695)	(699)
Proceeds/(Repay) Secured Loan	80	303	-	-
Proceeds/(Repay) Unsecured Loan	-	-	-	-
(Payment) of Dividend	(68)	(72)	(90)	(109)
Interest Paid	(50)	(90)	(120)	(120)
Net CF from Financing Activities	(77)	156	(439)	(305)
Net Cash flow	(352)	166	(200)	(11)
Cash and Cash Eq. (beginning)	447	94	261	60
Cash and Cash Equivalent (end)	94	261	60	50

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Equity Capital	18.1	18.1	18.1	18.1
Reserve and Surplus	1,896	2,593	3,155	4,090
Total Shareholders funds	1,914	2,611	3,173	4,108
Secured Loan	866	1,169	1,169	1,169
Unsecured Loan	-	-	-	-
Total Debt	866	1,169	1,169	1,169
Deferred Tax Liability	137	159	159	159
Minority Interest	101	140	143	149
Total Liabilities	3,037	4,101	4,666	5,606
Gross Block	1,821	2,146	2,826	3,476
Accumulated Depreciation	404	532	705	913
Net Block	1,416	1,614	2,120	2,563
Capital WIP	221	279	350	350
Total Fixed Assets	1,638	1,893	2,470	2,913
Inventory	719	1,098	1,264	1,524
Debtors	541	825	948	1,270
Loans and Advances	8	12	12	12
Other Current Assets	294	286	318	383
Cash	99	261	60	50
Total Current Assets	1,661	2,482	2,601	3,238
Creditors	465	488	527	635
Provisions	11	14	14	14
Total Current Liabilities	688	936	1,015	1,208
Net Current Assets	973	1,546	1,586	2,030
Total Assets	3037	4101	4666	5606

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per Share Data				
Reported EPS	48.8	83.7	97.3	123.7
Cash EPS	60.8	97.9	116.5	146.7
BV per share	211.6	288.5	350.6	453.9
Dividend per share	6.0	7.5	8.0	10.0
Cash Per Share	44.7	58.8	78.0	100.9
Operating Ratios (%)				
EBITDA Margin	18.9	18.6	20.3	21.0
EBIT / Net Sales	16.2	16.8	18.0	18.8
PAT / Net Sales	11.2	10.9	11.5	12.1
Inventory days	66.5	57.9	60.0	60.0
Debtor days	50.0	43.5	45.0	50.0
Creditor days	43.0	25.8	25.0	25.0
Return Ratios (%)				
RoE	23.1	29.0	27.8	27.3
RoCE	21.7	29.1	30.5	31.6
RoIC	25.5	34.7	34.0	34.7
Valuation Ratios (x)				
P/E	78.8	45.9	39.5	31.1
EV / EBITDA	47.6	27.7	23.0	18.4
EV / Net Sales	9.0	5.2	4.7	3.9
Market Cap / Sales	8.8	5.0	4.5	3.8
Price to Book Value	18.2	13.3	11.0	8.5
Solvency Ratios				
Debt / EBITDA	1.2	0.9	0.7	0.6
Debt / Equity	0.5	0.4	0.4	0.3
Current Ratio	3.1	3.9	4.2	4.5
Quick Ratio	1.7	2.0	2.1	2.3

Source: Company, ICICI Direct Research

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