Solar Industries India

11 November2019

Reuters: SLIN.BO; Bloomberg: SOIL IN

2QFY20 Result Update

Revenue blip temporary, healthy margin maintained

Solar Industries India (SIIL) reported consolidated revenue of Rs5.1bn in 2QFY20, down 3% YoY and 14%/10% below our/consensus estimates. Topline growth was affected by prolonged monsoon and global economic slowdown resulting from trade conflict. Housing & Infrastructure segment grew 7% YoY to Rs1.1bn, while institutional sales were up 4% YoY at Rs655mn. Defence sales were softer at Rs447mn, while exports and overseas revenue declined by 8% YoY to Rs2bn, impacted by Rs75mn translation loss from the overseas business and lower sales in Turkey and Zambia. CIL sales declined 10% YoY to Rs753mn, owing to subdued mining activity due to rains. Sales of explosives fell 3% YoY to Rs2.2bn due to 6% YoY decline in volume (at 63,611MT) and 3% YoY rise in realisation (at Rs34,015/MT). EBITDA margin rose 50bps YoY to 21.1%, above our/consensus estimates of 19.9%/20.5%. Aided by tax write-back of Rs91mn (shift to new tax regime), PAT jumped by 62% YoY to Rs844mn. The bottom-line was above our/consensus estimates of Rs610mn/Rs590mn. Net working capital stood at 95 days in 1HFY20 versus 90 days in FY19. Capex planned for FY20 is Rs2.5bn (Rs1.1bn already spent in 1HFY20). SIIL forayed into Space sector to make propulsion system for space applications and has received orders from ISRO. As a strategic step, SIIL plans to invest Rs175mn in a small satellite launching startup Sky-Root over two year period. SIIL has cut its FY20E revenue guidance to 5%-10%. We have cut our earnings estimates for FY20E/FY21E/FY22E by 6%-7%. We remain positive on SIIL's business scalability as well as strong financial health. We retain Buy rating on SIIL with a revised target price of Rs1,315 (Rs1,410 earlier) based on 28x September 2021E earnings.

Domestic explosives demand likely to revive: 2QFY20 witnessed subdued demand for domestic explosives from the mining sector (owing to lower mining activity impacted by prolonged rainfall) and infrastructure sector (liquidity tightness and low pace of construction). However, the same are likely to increase in the upcoming quarters as these are priority sectors for the government. Revenue from domestic explosives fell by 3% YoY to Rs2.2bn, led by 6% YoY decline in volume (63,611MT) and 3% YoY rise in realisation (Rs34,015/MT). Housing & Infrastructure segment sales grew by 7% YoY to Rs1.1bn (22% of total sales). Sales to CIL declined 10% YoY to Rs753mn (15% of total sales). CIL's unexecuted order book stands at Rs10.7bn, while SIIL expects further order booking from private players along with government entities. Sales of institutional segment (non-CIL miners) grew by 4% YoY to Rs655mn (13% of total sales).

Overseas sales decline temporary: Exports and overseas sales declined by 8% YoY to Rs2bn (40% of total sales), affected by Rs75mn translation loss from the overseas business, lower sales in Turkey (due to political tensions) and Zambia (due to lower copper mining operations and Vedanta exit). Revenue booking from South Africa has commenced from 2QFY20, but profitability will remain subdued as new customer acquisition and overhead absorption are yet to happen. Trial productions at Ghana and Australia units will commence by 4QFY20, while Tanzania plant will start distribution from 3QFY20 onwards. However, SIIL has deferred its overseas revenue growth guidance of Rs10bn to FY21 based on current economic situation.

Defence segment update: Defence sales were up 2% YoY at Rs447mn (9% of total sales). SIIL has participated in several defence products (including multimode hand grenades) tenders and expects healthy growth once the RFPs are finalized. SIIL expects defence sales of Rs2bn-Rs2.5bn in FY2OE.

Outlook: Over FY19-FY22E, we expect SIIL to register healthy revenue/earnings CAGR of 14%/20%, respectively. Healthy growth prospects, margins and return ratios will aid valuation.

BUY

Sector: Capital Goods

CMP: Rs1,045

Target Price: Rs1,315

Upside: 26%

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Key Data

Current Shares O/S (mn)	90.5
Mkt. Cap (Rsbn/US$bn)	94.6/1.3
52 Wk H / L (Rs)	1,311/924
Daily Vol. (3M NSE Avg.)	16,801

Price Performance (%)

	1 M	6 M	1 Yr
Solar Industries	(4.1)	(1.6)	1.4
Nifty Index	7.0	4.8	12.4

Source: Bloomberg

Y/E March (Rsmn)	2QFY19	1QFY20	2QFY20	*YoY (%)*	*QoQ (%)*	1HFY19	1HFY20	*YoY (%)*
Net revenues	**5,209**	**6,200**	**5,066**	***(2.7)***	***(18.3)***	**11,356**	**11,266**	***(0.8)***
Raw material costs	2,807	3,560	2,620	*(6.7)*	*(26.4)*	6,293	6,179	*(1.8)*
Staff costs	433	524	452	*4.4*	*(13.7)*	898	977	*8.7*
Other expenses	895	871	927	*3.5*	*6.4*	1,810	1,797	*(0.7)*
Total expenditure	4,136	4,955	3,998	*(3.3)*	*(19.3)*	9,001	8,953	*(0.5)*
EBITDA	1,073	1,246	1,067	*(0.5)*	*(14.3)*	2,355	2,313	*(1.8)*
EBITDA margin (%)	***20.6***	***20.1***	***21.1***	-	-	***20.7***	***20.5***	-
Interest costs	127	121	144	*13.7*	*19.3*	246	265	*7.8*
Depreciation	151	195	209	*37.7*	*6.9*	291	404	*38.6*
Other income	38	57	61	*61.2*	*5.8*	114	118	*3.2*
PBT	832	987	775	*(6.9)*	*(21.4)*	1,932	1,762	*(8.8)*
Tax	283	249	(91)	*NA*	*NA*	653	158	*(75.9)*
Minority interest	30	27	23	*(26.0)*	*(16.7)*	64	50	-
PAT	**519**	**711**	**844**	***62.4***	***18.6***	**1,215**	**1,555**	***28.0***
PAT margin (%)	*10.0*	*11.5*	*16.7*	-	-	*10.7*	*13.8*	-
EPS (Rs)	**5.7**	**7.9**	**9.3**	***62.4***	***18.6***	**13.4**	**17.2**	***28.0***

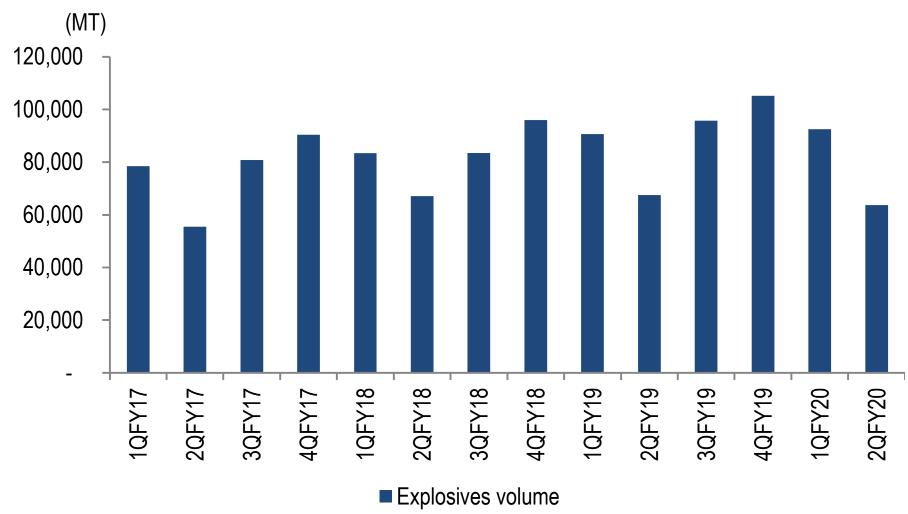
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net revenues	19,161	24,616	26,817	31,515	36,408
EBITDA	4,116	5,019	5,524	6,587	7,719
Adjusted net profit	2,206	2,677	3,164	3,886	4,621
Adjusted EPS (Rs)	24.4	29.6	35.0	42.9	51.1
EPS growth (%)	*18.2*	*21.4*	*18.2*	*22.9*	*18.9*
EBITDA margin (%)	*21.5*	*20.4*	*20.6*	*20.9*	*21.2*
P/E (x)	42.9	35.3	29.9	24.3	20.5
P/BV (x)	8.7	7.6	6.5	5.6	4.7
EV/EBITDA (x)	23.8	19.6	17.9	15.1	12.8
Dividend yield (%)	*0.6*	*0.7*	*1.0*	*1.2*	*1.4*
RoCE (%)	*21.8*	*24.0*	*22.1*	*23.0*	*23.5*
RoE (%)	*20.3*	*21.6*	*21.9*	*23.0*	*23.2*

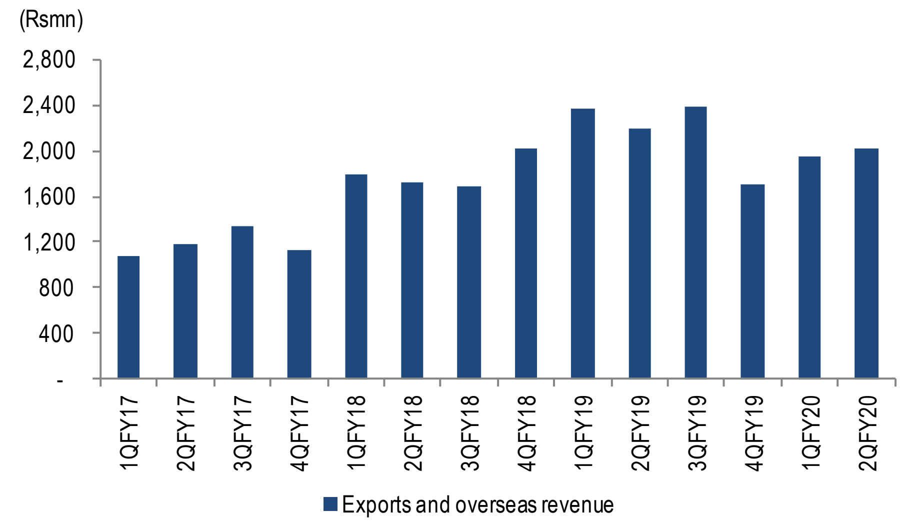
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Explosives sales trend in volume terms



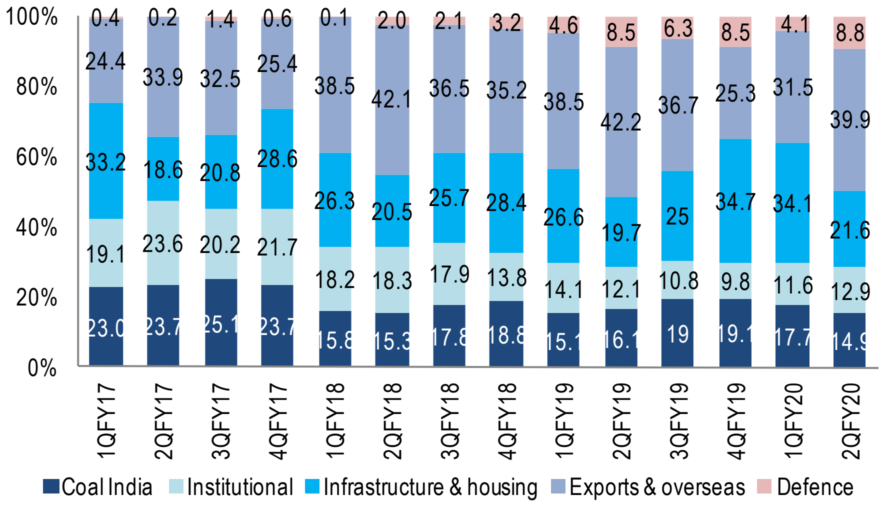
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Exports and overseas revenue trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Segment-wise revenue break-up



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Actual performance versus our estimates

2QFY20 (Rsmn)	Actual	Our estimate	*Deviation (%)*	Bloomberg cons. est.	*Deviation (%)*
Revenues	5,066	5,879	*(13.8)*	5,602	*(9.6)*
EBITDA	1,067	1,169	*(8.7)*	1,146	*(6.9)*
PAT	844	610	*38.4*	590	*43.0*

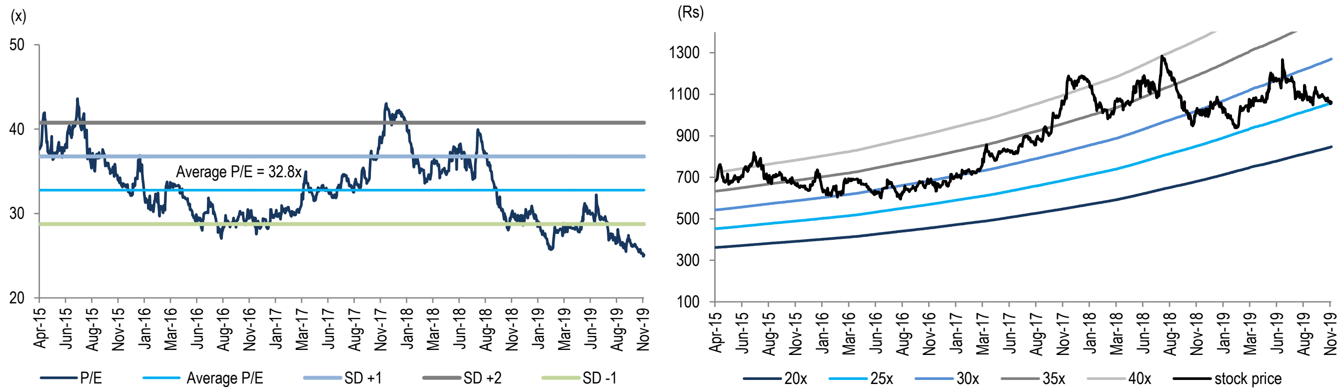
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Change in our estimates

(Rsmn)	Old			New			*Deviation (%)*		
Y/E March	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	*FY20E*	*FY21E*	*FY22E*
Revenues	28,961	34,155	39,980	26,817	31,515	36,408	*(7.4)*	*(7.7)*	*(8.9)*
EBITDA	6,024	7,275	8,556	5,524	6,587	7,719	*(8.3)*	*(9.5)*	*(9.8)*
PAT	3,384	4,177	4,934	3,164	3,886	4,621	*(6.5)*	*(7.0)*	*(6.3)*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: P/E trend



Source: Bombay Stock Exchange, Nirmal Bang Institutional Equities Research

Financial statement (consolidated)

Exhibit 8: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net sales	19,161	24,616	26,817	31,515	36,408
% growth	*21.3*	*28.5*	*8.9*	*17.5*	*15.5*
Raw material costs	10,636	14,009	15,178	17,774	20,498
Staff costs	1,424	1,842	2,092	2,427	2,803
Other overheads	2,986	3,745	4,023	4,727	5,388
Total expenditure	15,046	19,596	21,293	24,928	28,690
EBITDA	4,116	5,019	5,524	6,587	7,719
% growth	*27.1*	*22.0*	*10.1*	*19.2*	*17.2*
EBITDA margin (%)	*21.5*	*20.4*	*20.6*	*20.9*	*21.2*
Other income	121	147	221	261	307
Interest costs	327	499	519	557	647
Depreciation	513	589	787	855	929
Profit before tax	3,396	4,079	4,439	5,436	6,450
Tax	1,061	1,251	1,154	1,413	1,677
Minority interest	130	152	122	136	152
Adjusted net profit	2,206	2,677	3,164	3,886	4,621
PAT margin (%)	*11.5*	*10.9*	*11.8*	*12.3*	*12.7*
Adjusted EPS (Rs)	24.4	29.6	35.0	42.9	51.1
% growth	*18.2*	*21.4*	*18.2*	*22.9*	*18.9*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	181	181	181	181	181
Reserves	10,658	12,202	14,276	16,746	19,733
Net worth	10,839	12,383	14,457	16,927	19,914
Minority interest	474	476	476	476	476
Short-term loans	2,293	3,129	3,379	3,629	3,879
Long-term loans	1,961	1,556	2,306	3,056	3,806
Total loans	4,254	4,685	5,685	6,685	7,685
Deferred tax liability	939	904	784	784	784
Total liabilities	**16,505**	**18,448**	**21,403**	**24,873**	**28,859**
Net block	8,937	10,048	13,025	14,770	16,441
Capital work-in-progress	968	1,665	500	500	500
Intangible assets	402	492	492	492	492
Investments	171	326	326	326	326
Inventories	2,324	2,827	3,119	3,701	4,212
Debtors	3,636	3,990	4,408	5,267	6,085
Cash	695	918	1,395	2,045	3,304
Other current assets	2,623	2,240	2,521	2,899	3,350
Total current assets	9,402	9,998	11,577	14,070	17,132
Creditors	1,433	1,633	1,747	2,045	2,302
Other current liabilities & provisions	1,941	2,448	2,771	3,241	3,730
Total current liabilities	3,374	4,081	4,518	5,286	6,033
Net current assets	6,028	5,917	7,059	8,784	11,099
Total assets	**16,505**	**18,448**	**21,403**	**24,873**	**28,859**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
EBIT	3,603	4,431	4,737	5,732	6,789
(Inc.)/dec. in working capital	(375)	334	(665)	(1,074)	(1,057)
Cash flow from operations	**3,228**	**4,765**	**4,072**	**4,658**	**5,733**
Other income	121	147	221	261	307
Depreciation	513	589	787	855	929
Tax paid (-)	(906)	(1,286)	(1,273)	(1,413)	(1,677)
Minority interest (-)	(130)	(152)	(122)	(136)	(152)
Net cash from operations	**2,826**	**4,063**	**3,685**	**4,223**	**5,140**
Capital expenditure (-)	(1,891)	(2,396)	(2,600)	(2,600)	(2,600)
Net cash after capex	**935**	**1,667**	**1,085**	**1,623**	**2,540**
Interest paid (-)	(327)	(499)	(519)	(557)	(647)
Dividends paid (-)	(655)	(764)	(1,090)	(1,416)	(1,634)
Inc./(dec.) in short-term borrowing	(317)	836	250	250	250
Inc./(dec.) in long-term borrowing	481	(405)	750	750	750
Inc./(dec.) in total borrowings	164	432	1,000	1,000	1,000
(Inc.)/dec. in investments	362	(156)	-	-	-
Minority interest	71	2	-	-	-
Cash from financial activities	**(384)**	**(985)**	**(608)**	**(973)**	**(1,281)**
Others	(250)	(459)	-	-	-
Opening cash balance	394	695	918	1,395	2,045
Closing cash balance	695	918	1,395	2,045	3,304
Change in cash balance	301	223	477	650	1,259

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

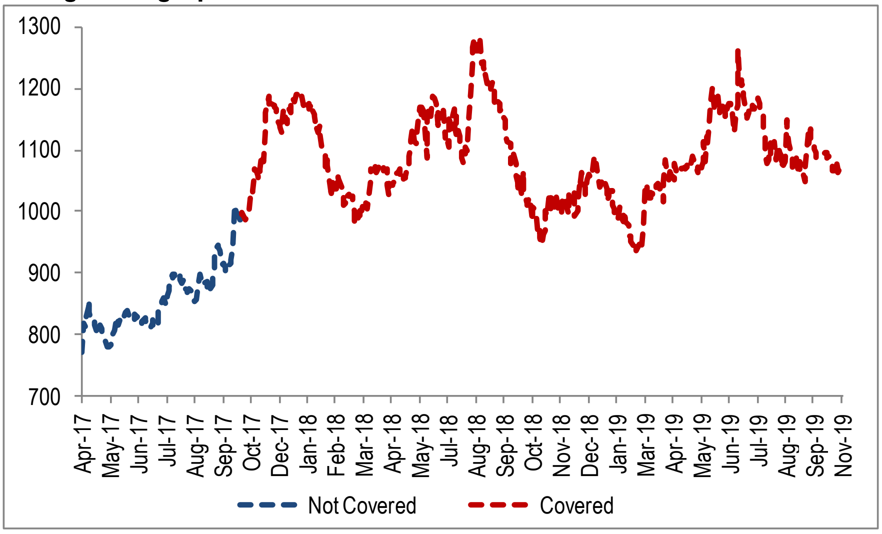
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
Per share (Rs)					
Adjusted EPS	24.4	29.6	35.0	42.9	51.1
Book value	119.8	136.8	159.8	187.1	220.1
Valuation (x)					
P/E	42.9	35.3	29.9	24.3	20.5
P/BV	8.7	7.6	6.5	5.6	4.7
EV/EBITDA	23.8	19.6	17.9	15.1	12.8
EV/sales	5.1	4.0	3.7	3.1	2.7
Return ratios (%)					
RoCE	21.8	24.0	22.1	23.0	23.5
RoE	20.3	21.6	21.9	23.0	23.2
RoIC	23.0	25.8	24.1	25.5	26.9
Profitability ratios (%)					
EBITDA margin	21.5	20.4	20.6	20.9	21.2
EBIT margin	18.8	18.0	17.7	18.2	18.6
PAT margin	11.5	10.9	11.8	12.3	12.7
Turnover ratios					
Fixed asset turnover ratio (x)	1.8	2.1	2.0	1.9	1.9
Debtor days	69	59	60	61	61
Inventory days	80	74	75	76	75
Creditor days	49	43	42	42	41
Solvency ratio (x)					
Debt-equity	0.4	0.4	0.4	0.4	0.4

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
18October 2017	Buy	985	1,185
16 November 2017	Buy	1,129	1,315
9 January 2018	Buy	1,176	1,315
9 February 2018	Buy	1,030	1,300
6 April 2018	Buy	1,072	1,300
14 May 2018	Buy	1,070	1,355
10 July 2018	Buy	1,135	1,355
1 August 2018	Buy	1,180	1,355
9 October 2018	Buy	1,014	1,355
31 October 2018	Buy	975	1,275
9 January 2019	Buy	1,059	1,275
1 February 2019	Buy	1,004	1,285
9 April 2019	Buy	1,045	1,390
13 May 2019	Buy	1,064	1,380
09 July 2019	Buy	1,157	1,380
01August 2019	Buy	1,092	1,380
23 September 2019	Buy	1,110	1,410
07 October 2019	Buy	1,084	1,410
11 November 2019	Buy	1,045	1,315

Rating track graph



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