

# Solar Industries India

31 October 2018

Reuters: SLIN.BO; Bloomberg: SOIL IN

## Sustains Healthy Growth Trajectory; Retain Buy

Solar Industries India (SIIL) reported consolidated revenues of Rs5.2bn in 2QFY19, up 27% YoY and 5% above our estimate. The top-line growth was driven by exports and overseas markets (up 28% YoY at Rs2.2bn) as well as infrastructure and housing segment (up 23% YoY at Rs1bn). Defence sales also scaled up to Rs440mn compared to Rs372mn in entire FY18. Sales to Coal India (CIL) rose 34% YoY to Rs838mn (on a low base) led by 11% YoY increase in realisation on account of pass-through of the rise in input costs. However, total explosives volume was up only 1% YoY at 67,529MT owing to lower despatch to non-CIL clients and lesser over-burden removal. In value terms, sales of explosives rose 10% YoY to Rs2.2bn. Gross margin was healthy at 46.1%, up 280bps QoQ and above FY18 level of 44.5%. EBITDA grew 23% YoY to Rs1bn, 4% above our estimate, leading to EBITDA margin of 20.6%, broadly on expected lines. PAT grew 14% YoY to Rs519mn, partially affected by higher tax rate (34% versus 31% YoY), interest costs (at Rs127mn versus Rs79mn YoY) and forex loss (Rs58mn). The bottom-line was below our estimate of Rs585mn. SIIL has sustained its strong growth momentum in 1HFY19 with revenue/EBITDA/PAT growth of 30%/25%/21%, respectively. We remain positive on SIIL's business scalability as well as strong financial health. We have retained Buy rating on SIIL with a target price of Rs1,275 based on 33x September 2020E earnings as we roll forward our valuation to FY21E financials.

**Weak volume growth of explosives in domestic market:** Sales of explosives in domestic market (48% of total sales) witnessed weak volume growth of 1% YoY in 2QFY19 at 67,529MT and 5% YoY at 158,152MT in 1HFY19. Weak volume growth was on account of lesser over-burden removal and lower despatch to other institutions, except CIL. SIIL expects to attain a volume of 3,60,000MT in FY19E (9% growth). This implies a healthy 12.5% growth in 2HFY19 driven by the expected rise in over-burden removal. In value terms, sales of explosives rose 10% YoY in 2QFY19 to Rs2.2bn and 14% YoY in 1HFY19 to Rs5.4bn led by 11% rise in realisation from CIL as per the cost pass-through formula. CIL sales grew 34% YoY to Rs838mn, on a low base, while sales to other institutions declined 16% YoY to Rs631mn. Infrastructure and housing segment (sales up 23% YoY at Rs1bn) was key demand driver of packaged explosives. SIIL has a healthy order book of Rs10.6bn (of which CIL is Rs7.3bn) which will drive growth of explosives in the near term.

**Strong growth in overseas revenues:** Revenues from exports and overseas entities grew 28% YoY to Rs2.2bn in 2QFY19 (42% of total sales) and 30% YoY to Rs4.6bn in 1HFY19. Overseas revenues were driven by strong performance in Zambia, Nigeria, Turkey and South Africa. Production in Australia and Ghana is likely to commence in FY19.

**Defence segment update:** Revenues in 2QFY19 stood at Rs440mn versus Rs372mn achieved in entire FY18. Order book jumped to Rs4.7bn from Rs2.5bn QoQ. SIIL expects FY19 sales of Rs2bn (Rs5bn in FY20E) as the defence segment (HMX, propellant, warheads and ammunition) scales up.

**Outlook:** Over FY18-FY21E, we expect SIIL to register healthy revenue and earnings CAGR of 20%. We believe SIIL is likely to command a premium valuation considering the healthy growth outlook in explosives and strong scale-up prospects in overseas markets as well as defence segment in a regulated industry having strict licencing controls.

## BUY

**Sector:** Capital Goods

**CMP:** Rs975

**Target Price:** Rs1,275

**Upside:** 31%

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### Key Data

Current Shares O/S (mn)	90.5
Mkt Cap (Rsbn/US\$bn)	88.0/1.2
52 Wk H / L (Rs)	1,320/941
Daily Vol. (3M NSE Avg.)	16,169

### Price Performance (%)

	1 M	6 M	1 Yr
Solar Industries	(8.3)	(8.6)	(5.6)
Nifty Index	(6.8)	(5.1)	(1.7)

Source: Bloomberg

Y/E March (Rsmn)	2QFY18	1QFY19	2QFY19	YoY (%)	QoQ (%)	1HFY18	1HFY19	YoY (%)
<b>Net revenues</b>	<b>4,084</b>	<b>6,147</b>	<b>5,209</b>	<b>27.5</b>	<b>(15.3)</b>	<b>8,751</b>	<b>11,356</b>	<b>29.8</b>
Raw material costs	2,094	3,485	2,807	34.1	(19.5)	4,766	6,293	32.0
Staff costs	334	463	433	29.7	(6.4)	692	896	29.5
Other expenses	785	917	895	14.1	(2.4)	1,402	1,812	29.2
Total expenditure	3,212	4,865	4,136	28.8	(15.0)	6,860	9,001	31.2
EBITDA	872	1,282	1,073	23.0	(16.3)	1,891	2,355	24.6
<b>EBITDA margin (%)</b>	<b>21.4</b>	<b>20.9</b>	<b>20.6</b>	-	-	<b>21.6</b>	<b>20.7</b>	-
Interest costs	79	119	127	61.3	6.4	137	246	79.6
Depreciation	128	140	151	18.7	8.4	253	291	15.2
Other income	33	77	38	15.7	(50.9)	57	114	99.7
PBT	699	1,100	832	19.2	(24.3)	1,558	1,932	24.0
Tax	216	371	283	30.8	(23.8)	477	653	36.9
Minority interest	25	34	30	-	-	76	64	-
<b>PAT</b>	<b>457</b>	<b>696</b>	<b>519</b>	<b>13.6</b>	<b>(25.3)</b>	<b>1,005</b>	<b>1,215</b>	<b>20.9</b>
<b>PAT margin (%)</b>	<b>11.2</b>	<b>11.3</b>	<b>10.0</b>	-	-	<b>11.5</b>	<b>10.7</b>	-
<b>EPS (Rs)</b>	<b>5.1</b>	<b>7.7</b>	<b>5.7</b>	<b>13.6</b>	<b>(25.3)</b>	<b>11.1</b>	<b>13.4</b>	<b>20.9</b>

Source: Company, Nirmal Bang Institutional Equities Research

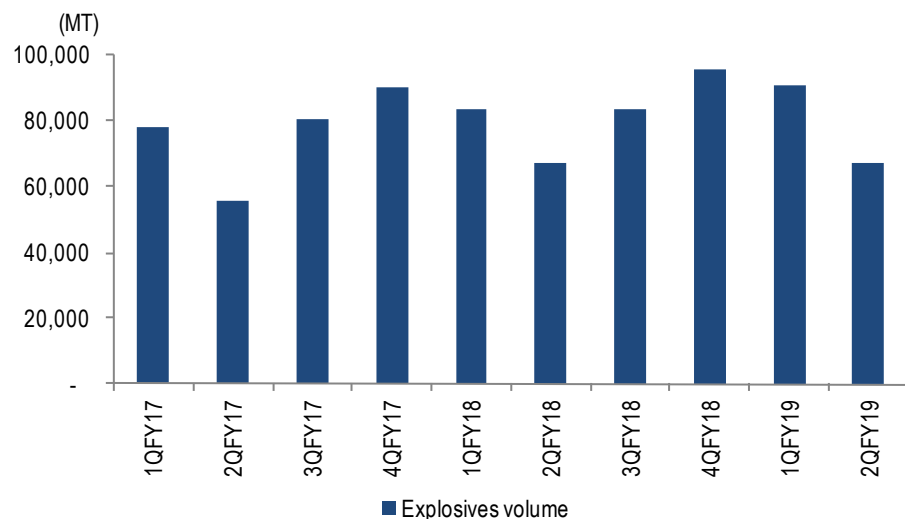
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## Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Revenues	15,800	19,161	23,436	27,774	32,837
EBITDA	3,239	4,116	4,942	5,977	7,207
Net profit	1,865	2,206	2,527	3,139	3,853
EPS (Rs)	20.6	24.4	27.9	34.7	42.6
EPS growth (%)	14.0	18.2	14.6	24.2	22.7
EBITDA margin (%)	20.5	21.5	21.1	21.5	21.9
P/E (x)	47.3	40.0	34.9	28.1	22.9
P/BV (x)	9.5	8.1	7.1	6.2	5.3
EV/EBITDA (x)	28.4	22.2	18.8	15.7	13.2
Dividend yield (%)	0.5	0.6	0.9	1.1	1.4
RoCE (%)	19.6	22.3	22.9	24.3	25.7
RoE (%)	20.1	20.3	20.4	21.9	23.1

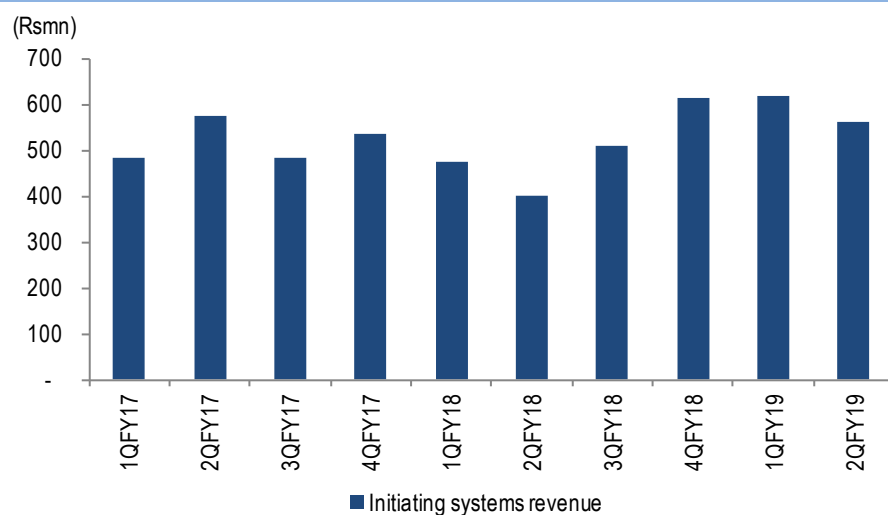
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Explosives volume sales trend



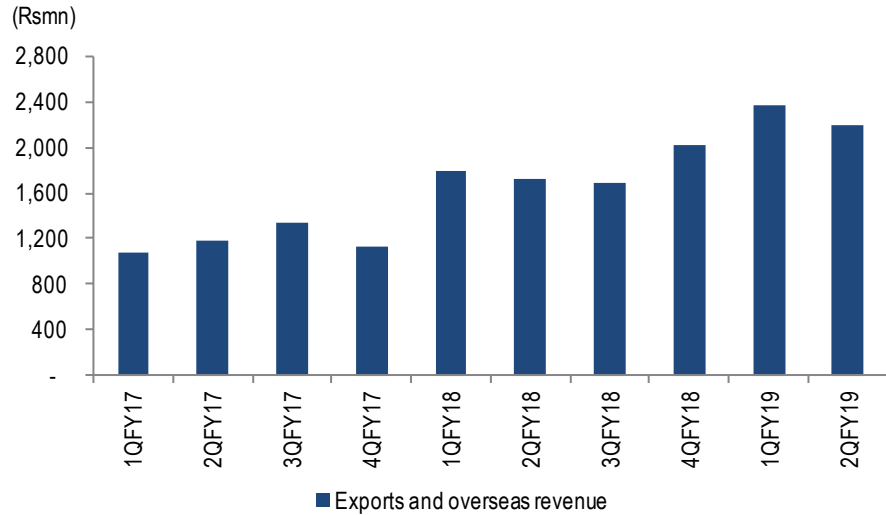
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Initiating systems revenue trend



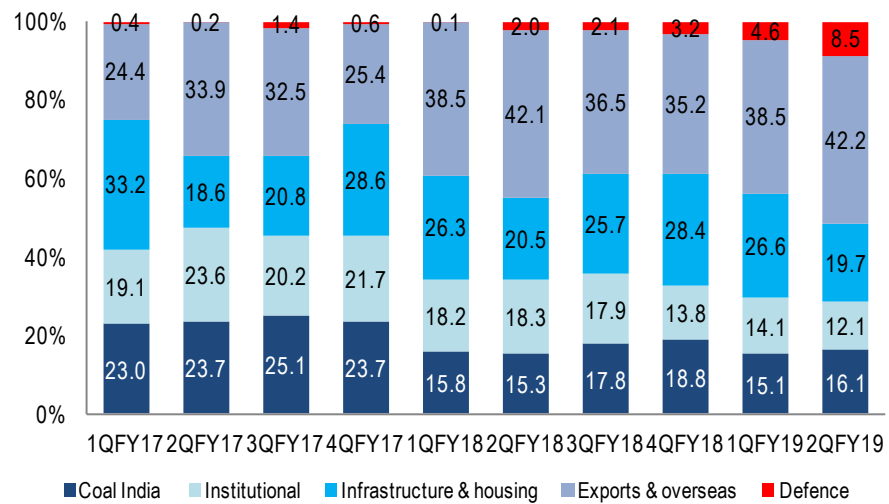
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Exports and overseas revenue trend**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Customer-wise revenue break-up**



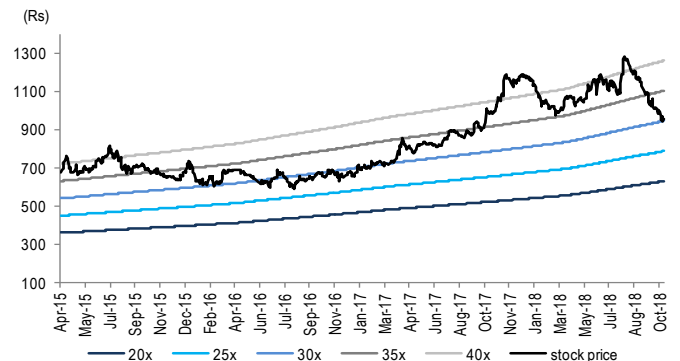
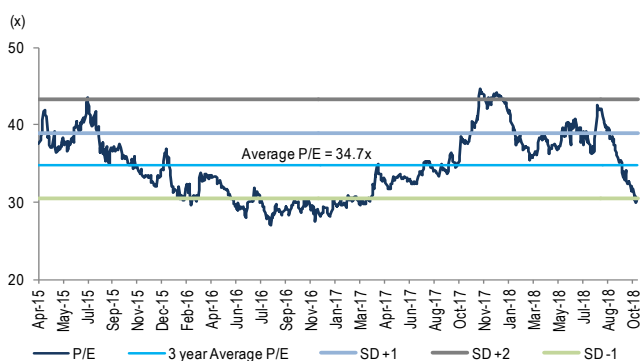
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: Actual performance versus our estimates**

2QFY19 consolidated (Rsmn)	Actual	Our estimate	Deviation (%)
Revenues	5,209	4,945	5.3
EBITDA	1,073	1,030	4.2
PAT	519	585	(11.2)

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)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	15,800	19,161	23,436	27,774	32,837
% growth	9.1	21.3	22.3	18.5	18.2
Raw material costs	9,065	10,636	13,010	15,353	18,077
Staff costs	1,043	1,335	1,828	2,139	2,528
Other overheads	2,453	3,075	3,656	4,305	5,024
Total expenditure	12,561	15,046	18,494	21,797	25,630
EBITDA	3,239	4,116	4,942	5,977	7,207
% growth	6.5	27.1	20.1	20.9	20.6
EBITDA margin (%)	20.5	21.5	21.1	21.5	21.9
Other income	132	121	182	201	224
Interest costs	269	327	509	558	619
Depreciation	387	513	579	636	718
Profit before tax	2,715	3,396	4,036	4,984	6,094
Tax	767	1,061	1,372	1,695	2,072
Minority interest	82	130	137	151	169
Net profit	1,865	2,206	2,527	3,139	3,853
PAT margin (%)	11.8	11.5	10.8	11.3	11.7
EPS (Rs)	20.6	24.4	27.9	34.7	42.6
% growth	14.0	18.2	14.6	24.2	22.7

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Balance sheet**

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Share capital	181	181	181	181	181
Reserves	9,105	10,658	12,204	14,144	16,472
Net worth	9,286	10,839	12,385	14,325	16,653
Minority interest	403	474	474	474	474
Short-term loans	2,610	2,246	2,746	2,996	3,246
Long-term loans	1,480	1,633	2,633	3,383	4,133
Total loans	4,090	3,879	5,379	6,379	7,379
Deferred tax liability	784	939	784	784	784
<b>Total liabilities</b>	<b>14,562</b>	<b>16,130</b>	<b>19,021</b>	<b>21,962</b>	<b>25,290</b>
Net block	7,617	8,937	11,427	13,791	16,073
Capital work-in-progress	909	968	900	900	900
Intangible assets	150	402	402	402	402
Investments	35	30	30	30	30
Long term loans & advances	763	798	820	833	985
Inventories	1,811	2,324	2,816	3,281	3,764
Debtors	3,191	3,636	4,302	5,022	5,848
Cash	394	695	712	626	677
Current investment	498	140	234	278	328
Other current assets	1,592	1,833	1,875	2,083	2,463
Total current assets	7,743	8,745	10,057	11,429	13,244
Creditors	893	1,272	1,640	1,851	2,130
Other current liabilities & provisions	1,762	2,478	2,975	3,572	4,215
Total current liabilities	2,655	3,750	4,614	5,423	6,345
Net current assets	5,087	4,995	5,442	6,006	6,899
<b>Total assets</b>	<b>14,562</b>	<b>16,130</b>	<b>19,021</b>	<b>21,962</b>	<b>25,290</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: Cash flow**

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
EBIT	2,852	3,603	4,363	5,341	6,489
(Inc.)/dec. in working capital	(472)	393	(430)	(649)	(842)
<b>Cash flow from operations</b>	<b>2,379</b>	<b>3,996</b>	<b>3,934</b>	<b>4,692</b>	<b>5,647</b>
Other income	132	121	182	201	224
Depreciation	387	513	579	636	718
Tax paid (-)	(747)	(906)	(1,527)	(1,695)	(2,072)
Minority interest (-)	(82)	(130)	(137)	(151)	(169)
<b>Net cash from operations</b>	<b>2,070</b>	<b>3,594</b>	<b>3,030</b>	<b>3,684</b>	<b>4,348</b>
Capital expenditure (-)	(1,732)	(1,891)	(3,000)	(3,000)	(3,000)
<b>Net cash after capex</b>	<b>338</b>	<b>1,702</b>	<b>30</b>	<b>684</b>	<b>1,348</b>
Interest paid (-)	(269)	(327)	(509)	(558)	(619)
Dividends paid (-)	(545)	(654)	(981)	(1,198)	(1,525)
Inc./(dec.) in short-term borrowing	520	(364)	500	250	250
Inc./(dec.) in long-term borrowing	133	153	1,000	750	750
Inc./(dec.) in total borrowings	653	(211)	1,500	1,000	1,000
(Inc.)/dec. in long term loans & adv	(43)	(35)	(22)	(13)	(152)
(Inc.)/dec. in investments	57	5	-	-	-
Minority interest	(75)	71	-	-	-
<b>Cash from financial activities</b>	<b>(222)</b>	<b>(1,151)</b>	<b>(12)</b>	<b>(770)</b>	<b>(1,296)</b>
Others	(89)	(250)	-	-	-
Opening cash balance	367	394	695	712	626
Closing cash balance	394	695	712	626	677
Change in cash balance	27	301	18	(86)	51

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Key ratios**

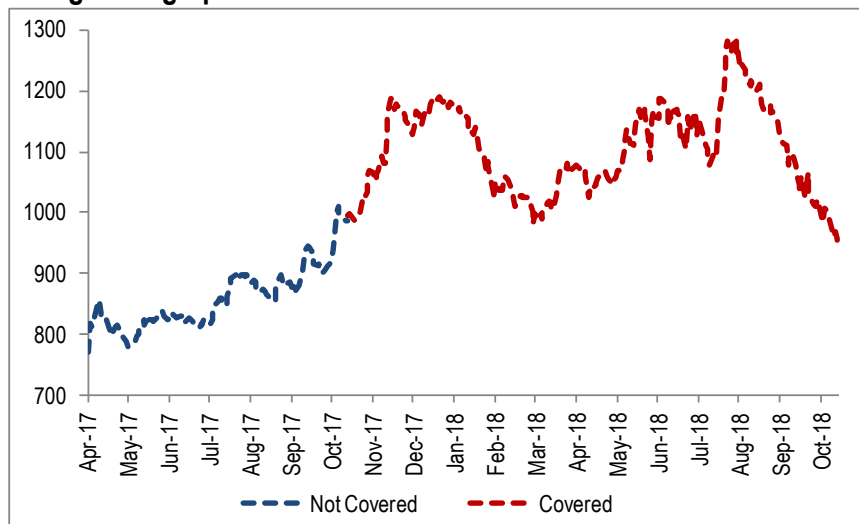
Y/E March	FY17	FY18	FY19E	FY20E	FY21E
<b>Per share (Rs)</b>					
EPS	20.6	24.4	27.9	34.7	42.6
Book value	102.6	119.8	136.9	158.3	184.0
<b>Valuation (x)</b>					
P/E	47.3	40.0	34.9	28.1	22.9
P/BV	9.5	8.1	7.1	6.2	5.3
EV/EBITDA	28.4	22.2	18.8	15.7	13.2
EV/sales	5.8	4.8	4.0	3.4	2.9
<b>Return ratios (%)</b>					
RoCE	19.6	22.3	22.9	24.3	25.7
RoE	20.1	20.3	20.4	21.9	23.1
RoIC	20.2	23.4	23.9	25.1	26.4
<b>Profitability ratios (%)</b>					
EBITDA margin	20.5	21.5	21.1	21.5	21.9
EBIT margin	18.0	18.8	18.6	19.2	19.8
PAT margin	11.8	11.5	10.8	11.3	11.7
<b>Turnover ratios</b>					
Fixed asset turnover ratio (x)	1.8	1.8	1.8	1.7	1.7
Debtor days	74	69	67	66	65
Inventory days	73	80	79	78	76
Creditor days	36	44	46	44	43

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
18 October 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

## Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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