

Solar Industries India

04 May, 2023

Reuters: SLIN.BO; Bloomberg: SOIL IN

Strong quarter; EBITDA margin for FY24 seen at 21-22%

Solar Industries India Ltd (SIIL) reported 4QFY23 revenue of Rs19.3bn, up 46.5% YoY (26.9% above NBIE Est.). While Coal India (CIL)/Institutional/Exports/Defence revenue grew by 16.1%/91.7%/89.7%/53.6% YoY to Rs3bn/Rs3.8bn/Rs7.4bn/Rs1.1bn, Housing & Infra revenue declined by 1.5% YoY to Rs3.8bn. Gross margin expanded by 30bps YoY to 38.3% on the back of easing commodity cost pressures. EBITDA grew by 36% YoY to Rs3.6bn. Operating margin stood at 18.5%, down by 150bps YoY (80bps below NBIE Est.), mainly on account of higher other expenses (up 88% YoY). SIIL reported its highest-ever quarterly PAT of Rs2.1bn, up 22.9% YoY (21.2% above NBIE Est.). In 4QFY23, SIIL acquired Rajasthan Explosives and Chemicals (RECL) for a consideration of Rs700mn. SIIL has acquired land in South India and Northwest India for new facilities. The management has guided for 15-20% volume growth for FY24. The company expects Defence revenue to double to Rs8bn for FY24. Overall, we believe that while volume growth outlook remains strong on account of higher off-take by CIL and strong demand from miners amid the ongoing Housing & Infra push by the Government, maintaining similar levels of realizations will be a challenge going forward as we expect the price of Ammonium Nitrate (key raw material) to continue to soften from multi-year highs. We have tweaked our numbers accordingly and continue to maintain an ACCUMULATE on SIIL with a revised target price (TP) of Rs4,000 (vs Rs3,920 earlier), valuing it at 35x FY25E earnings.

Realization up 1.5% YoY; Volume up 13% YoY: Explosive volume grew by 13% YoY to 135,007MT whereas price realization increased by 3% YoY to Rs66,913/MT. Order book at the end of 4QFY23 stood at Rs29.44bn (Defence: Rs11.18bn and Coal/Singareni: Rs18.26bn), which is down from Rs33.88bn at the end of 3QFY23.

Exports & Overseas and Defence update: Exports & Overseas markets continued their robust growth momentum, with the highest-ever 4Q sales of Rs7.39bn (38.2% of total sales), up 89.7% YoY. The management expects volume growth of 15-20% YoY for its overseas operations in FY24. SIIL will focus on increasing its global manufacturing presence to 12 countries from 8 earlier. The management highlighted that operations in Australia, Indonesia and Ghana plants have started. While Tanzania operations are running well, it expects operations in Turkey to stabilise in FY24. The management expects PBT level profitability for Australia and South Africa plants. The Defence segment continued its growth momentum and reported its highest-ever 4Q sales of Rs1.11bn (5.8% of total sales), up 53.6% YoY. The management expects Defence revenue to double to Rs8bn in FY24 on the back of a robust order book, which comprises export orders of Pinaka Rockets, Nagastra LM and other ammunitions. SIIL expects product evaluations of Pinaka rockets to be completed in three months and expects domestic orders of the same going ahead.

Key Concall Highlights: (1) Capex plan for FY24 is pegged at Rs7.5bn. Of this, capex of Rs3.5bn/Rs1.5bn/Rs2.5bn will be incurred for Defence/Overseas/Domestic Explosives. (2) Next order from CIL/Singareni is expected in Oct'23/Apr'24. (3) In 4QFY23, SIIL acquired RECL for a consideration of Rs700mn. RECL has domestic explosives facilities of 30kT. In addition, RECL has a land parcel of 900 acres, which is available for expansion. (4) Net debt at the end of FY23 increased to Rs9.1bn from Rs7.84bn at the end of FY22. (5) Currency loss stood at Rs800mn for FY23.

Outlook: Over FY23-FY25E, we expect SIIL to register Revenue/Earnings CAGR of 5.4%/16.7%. Healthy growth and margin prospects, Defence scale-up and high regulatory entry barriers will aid its valuation.

Y/E March (Rsmn)	4QFY20	4QFY22	3QFY23	4QFY23	Change over 4QFY20	YoY %	QoQ %
Net revenues	5,475	13,169	18,118	19,285	252.3	46.5	6.4
Raw material costs	2,963	8,162	11,515	11,907	301.8	45.9	3.4
Staff costs	574	887	917	993	72.9	11.9	8.2
Other expenses	1,040	1,491	2,191	2,811	170.2	88.6	28.3
Total expenditure	4,578	10,540	14,622	15,711	243.2	49.1	7.4
EBITDA	897	2,628	3,495	3,575	298.5	36.0	2.3
EBITDA margin (%)	16.4	20.0	19.3	18.5	-	-	-
Interest costs	144	148	255	312	116.6	111.4	22.7
Depreciation	221	296	320	353	59.5	19.2	10.3
Other income	199	8	72	113	(42.9)	1,372.7	56.6
PBT	730	2,192	2,993	3,023	314.0	37.9	1.0
Tax	198	444	800	814	310.9	83.5	1.8
Minority interest	32	69	148	145	349.7	109.9	(2.4)
PAT	500	1,679	2,045	2,063	313.0	22.9	0.9
PAT margin (%)	9.1	12.7	11.3	10.7	-	-	-
EPS (Rs)	5.5	18.6	22.6	22.8	313.0	22.9	0.9

Source: Company, Nirmal Bang Institutional Equities Research

ACCUMULATE

Sector: Capital Goods

CMP: Rs3,848

Target Price: Rs4,000

Upside: 4.0%

NBIE Research

institutional.research@nirmalbang.com

+91-022 6273 8111

Key Data

Current Shares O/S (mn)	90.5
Mkt. Cap (Rsbn/US\$b)	348.2/4.3
52 Wk H / L (Rs)	4,538/2,470
Daily Vol. (3M NSE Avg.)	50,947

Price Performance (%)

	1 M	6 M	1 Yr
Solar Industries	3.7	(4.0)	28.3
Nifty Index	4.0	0.8	9.4

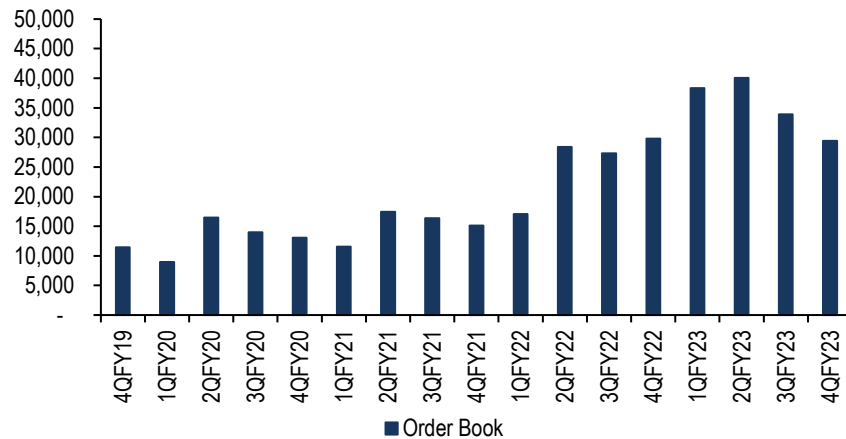
Source: Bloomberg

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Net revenues	25,156	39,476	69,225	70,523	76,878
EBITDA	5,146	7,473	12,889	15,092	16,913
Adjusted net profit	2,764	4,413	7,575	8,960	10,321
Adjusted EPS (Rs)	30.5	48.8	83.7	99.0	114.0
EPS growth (%)	3.3	59.7	71.7	18.3	15.2
EBITDA margin (%)	20.5	18.9	18.6	21.4	22.0
P/E (x)	126.0	78.9	46.0	38.9	33.7
P/BV (x)	22.0	18.2	13.3	10.1	7.9
EV/EBITDA (x)	68.5	47.6	27.7	23.6	20.8
Dividend yield (%)	0.2	0.2	0.2	0.2	0.3
RoCE (%)	18.2	21.8	29.4	29.1	28.1
RoE (%)	17.5	23.1	29.0	26.0	23.5

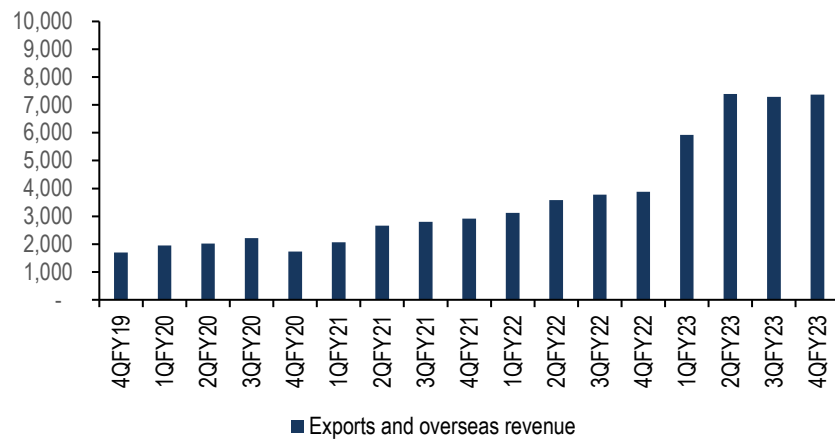
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Order book trend



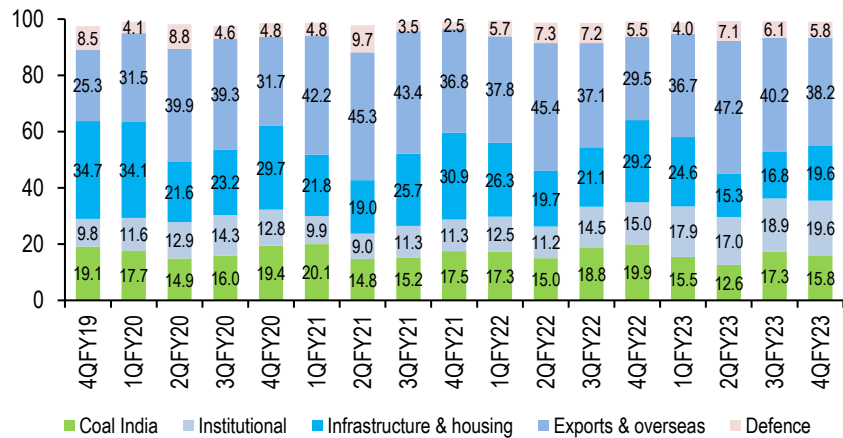
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Exports and Overseas revenue trend



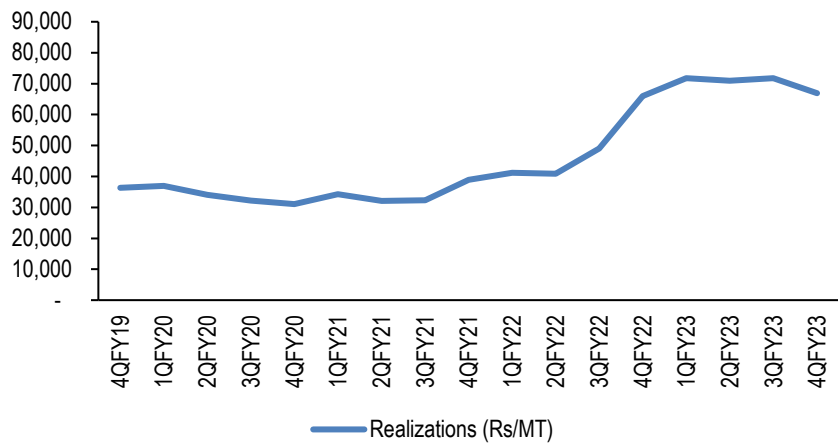
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Segment-wise revenue break-up



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Realizations trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Actual performance versus estimates

4QFY23(Rsmn)	Actual	Our Estimate	Deviation (%)
Revenue	19,285	15,199	26.9
EBITDA	3,575	2,931	21.9
EBITDA Margin (%)	18.5	19.3	-
PAT	2,063	1,702	21.2

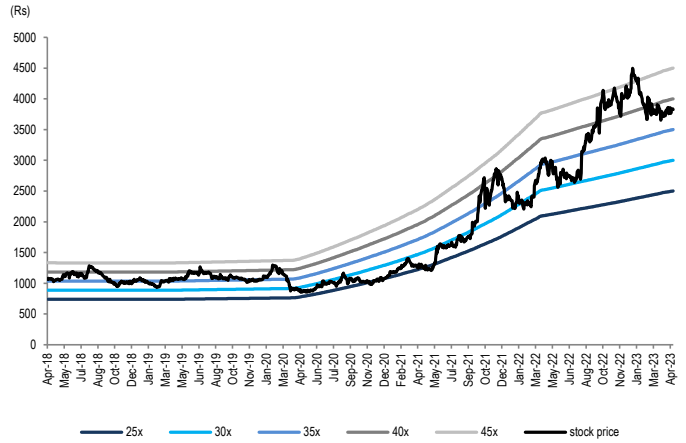
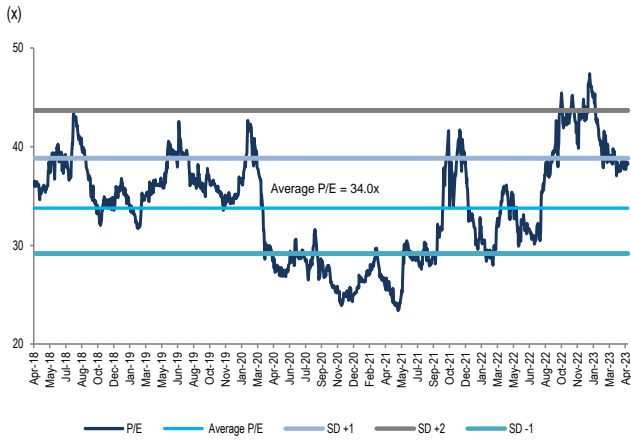
Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 7: Change in our estimates

Description (Rsmn)	Old		New		Variation (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	69,661	77,227	70,523	76,878	1.2	(0.5)
EBITDA	13,972	16,604	15,092	16,913	8.0	1.9
EBITDA Margin (%)	20.1	21.5	21.4	22.0	134 bps	50 bps
PAT	8,294	10,132	8,960	10,321	8.0	1.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: P/E charts



Source: Bombay Stock Exchange, Nirmal Bang Institutional Equities Research

Financial statement (consolidated)
Exhibit 9: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	25,156	39,476	69,225	70,523	76,878
% growth	12.4	56.9	75.4	1.9	9.0
Raw material costs	13,468	23,273	43,424	42,878	46,511
Staff costs	2,306	2,896	3,527	3,526	3,844
Other overheads	4,236	5,834	9,385	9,027	9,610
Total expenditure	20,010	32,004	56,336	55,431	59,965
EBITDA	5,146	7,473	12,889	15,092	16,913
% growth	18.5	45.2	72.5	17.1	12.1
EBITDA margin (%)	20.5	18.9	18.6	21.4	22.0
Other income	214	197	315	347	433
Interest costs	454	503	904	974	671
Depreciation	935	1,093	1,282	1,589	1,936
Profit before tax	3,971	6,074	11,019	12,876	14,739
Tax	1,090	1,520	2,904	3,241	3,710
Minority interest	117	142	540	675	708
Adjusted net profit	2,764	4,413	7,575	8,960	10,321
PAT margin	11.0	11.2	10.9	12.7	13.4
Adjusted EPS (Rs)	30.5	48.8	83.7	99.0	114.0
% growth	3.3	59.7	71.7	18.3	15.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	181	181	181	181	181
Reserves	15,613	18,962	25,922	34,341	43,757
Net worth	15,794	19,143	26,103	34,522	43,938
Minority interest	627	1,006	1,404	1,404	1,404
Short-term loans	1,940	4,303	6,965	5,965	4,465
Long-term loans	4,332	4,359	4,727	4,227	3,227
Total loans	6,272	8,661	11,692	10,192	7,692
Deferred tax liability	461	423	314	314	314
Total liabilities	23,155	29,233	39,514	46,432	53,348
Net block	12,415	14,419	16,431	21,636	26,199
Capital work-in-progress	2,824	2,211	2,794	3,500	500
Intangible assets	566	601	614	614	614
Investments	10	182	985	985	985
Inventories	4,405	7,189	10,980	9,398	10,194
Debtors	4,555	5,411	8,253	8,695	9,478
Cash	1,812	988	2,601	2,099	3,954
Other current assets	3,009	5,265	6,430	8,604	10,917
Total current assets	13,780	18,852	28,264	28,795	34,543
Creditors	2,861	4,649	4,885	4,699	5,097
Other current liabilities & provisions	3,579	2,412	4,689	4,399	4,396
Total current liabilities	6,440	7,061	9,574	9,098	9,493
Net current assets	7,341	11,791	18,690	19,697	25,050
Assets Held of Sale	0	29	0	0	0
Total assets	23,155	29,233	39,514	46,432	53,348

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Cash flow

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
EBIT	4,211	6,380	11,607	13,503	14,977
(Inc./dec. in working capital)	462	(5,274)	(5,286)	(1,509)	(3,497)
Cash flow from operations	4,673	1,106	6,321	11,994	11,479
Other income	214	197	315	347	433
Depreciation	935	1,093	1,282	1,589	1,936
Tax paid (-)	(1,162)	(1,558)	(3,013)	(3,241)	(3,710)
Minority interest (-)	(117)	(142)	(540)	(675)	(708)
Net cash from operations	4,543	695	4,366	10,014	9,431
Capital expenditure (-)	(3,008)	(2,484)	(3,877)	(7,500)	(3,500)
Net cash after capex	1,534	(1,789)	490	2,514	5,931
Interest paid (-)	(454)	(503)	(904)	(974)	(671)
Dividends paid (-)	(543)	(679)	(724)	(815)	(905)
Inc./(dec.) in short-term borrowing	(1,634)	2,362	2,663	(1,000)	(1,500)
Inc./(dec.) in long-term borrowing	1,804	26	369	(500)	(1,000)
Inc./(dec.) in total borrowings	171	2,389	3,031	(1,500)	(2,500)
(Inc./dec. in investments)	14	(173)	(803)	-	-
Minority interest	112	379	397	-	-
Cash from financial activities	(701)	1,414	998	(3,288)	(4,076)
Others	(227)	(414)	139	273	(0)
Opening cash balance	1,201	1,812	988	2,601	2,099
Closing cash balance	1,812	988	2,601	2,099	3,954
Change in cash balance	611	(825)	1,613	(502)	1,855

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Key ratios

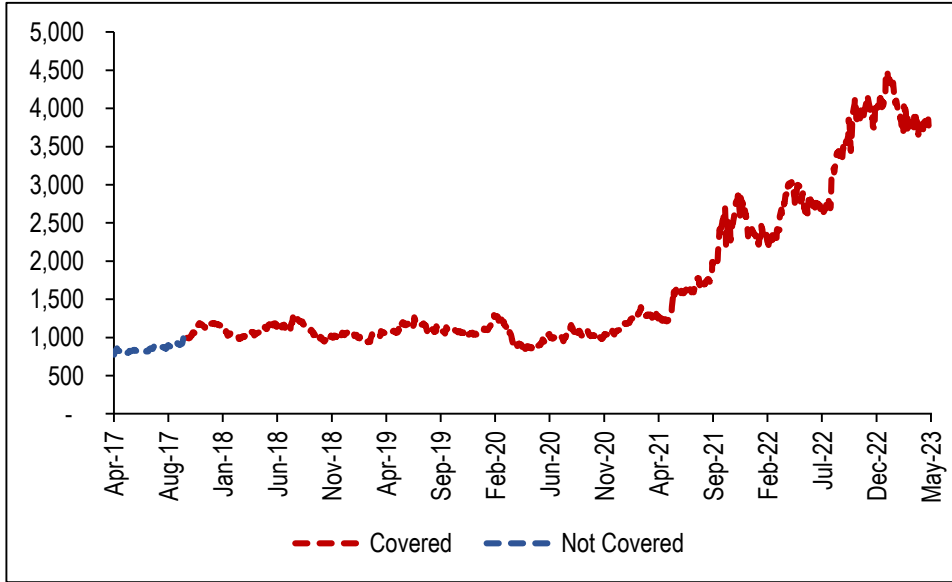
Y/E March	FY21	FY22	FY23	FY24E	FY25E
Per share (Rs)					
Adjusted EPS	30.5	48.8	83.7	99.0	114.0
Book value	174.5	211.5	288.4	381.5	485.5
Valuation (x)					
P/E	126.0	78.9	46.0	38.9	33.7
P/BV	22.0	18.2	13.3	10.1	7.9
EV/EBITDA	68.5	47.6	27.7	23.6	20.8
EV/sales	14.0	9.0	5.2	5.1	4.6
Return ratios (%)					
RoCE	18.2	21.8	29.4	29.1	28.1
RoE	17.5	23.1	29.0	26.0	23.5
RoIC	19.7	22.7	32.3	31.2	30.9
Profitability ratios (%)					
EBITDA margin	20.5	18.9	18.6	21.4	22.0
EBIT margin	16.7	16.2	16.8	19.1	19.5
PAT margin	11.0	11.2	10.9	12.7	13.4
Turnover ratios					
Fixed asset turnover ratio (x)	1.7	2.3	3.4	2.8	2.4
Debtor days	66	50	44	45	45
Inventory days	119	113	92	80	80
Creditor days	78	73	41	40	40
Solvency ratio (x)					
Debt-equity	0.4	0.5	0.4	0.3	0.2

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
9 July 2019	Buy	1,157	1,380
1August 2019	Buy	1,092	1,380
23 September 2019	Buy	1,110	1,410
7 October 2019	Buy	1,084	1,410
11 November 2019	Buy	1,045	1,315
9 January 2020	Buy	1,114	1,315
13 February 2020	Accumulate	1,210	1,235
26March 2020	Buy	905	1,095
9 April 2020	Buy	919	1,095
5August 2020	Accumulate	977	1,030
18September 2020	Buy	1,058	1,225
9 October 2020	Buy	1,089	1,225
12 November 2020	Buy	1,002	1,230
7 January 2021	Buy	1,125	1,375
31 January 2021	Buy	1,188	1,425
9 April 2021	Buy	1,286	1,425
29 May 2021	Buy	1,401	1,625
1August 2021	Buy	1,704	1,975
26 September 2021	Buy	2,002	2,300
09 October 2021	Buy	2,418	2,900
30 October 2021	Buy	2,487	2,850
31 January 2022	Buy	2,309	2,900
21 February 2022	Buy	2,290	3,150
08 May 2022	Buy	2,984	3,460
26 July 2022	Buy	2,832	3,460
19 September 2022	Buy	3,560	4,250
6 November 2022	Buy	4,009	5,065
26 January 2023	Accumulate	4,067	4,400
22 March 2023	Accumulate	3,816	3,920
04 May 2023	Accumulate	3,848	4,000

Rating track graph



DISCLOSURES

Research Reports that are published by Nirmal Bang Securities Private Limited (hereinafter referred to as “NBSPL”) are for private circulation only. NBSPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001766. NBSPL is also a registered Stock Broker with National Stock Exchange of India Limited, BSE Limited, Metropolitan Stock Exchange of India Limited, Multi Commodity Exchange of India Limited, National Commodity and Derivative Exchange Limited and Indian Commodity Exchange Limited in cash and Equity and Commodities derivatives segments.

NBSPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBSPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBSPL, its associates or analyst or his relatives do not hold any financial interest (Except Investment) in the subject company. NBSPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBSPL or its associates or Analyst or his relatives may or may not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBSPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBSPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company. NBSPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I, NBIE Research, the research analyst and the authors of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

DISCLAIMER

This report is for the personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. NBSPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBSPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBSPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBSPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBSPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBSPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBSPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBSPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBSPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBSPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Krishnan Sambamoorthy	Head of Research	krishnan.s@nirmalbang.com	+91 22 6273 8210
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010