

25 March 2024

India | Equity Research | Company Update

Solar Industries

Defense

Solar 3.0: Defence likely to be the mainstay

Taking cognisance of the traction in ammunitions, rocket force and drones and the possibility of Solar Industries' (SOIL) participation in the same, we believe defence is likely to garner 22-25% of revenue in FY25/26E. Key points: 1) Media reports ([Link](#)) suggest SOIL is developing bombs for Su-30MKI; 2) our channel checks suggest Pinaka order is likely to be awarded soon; 3) global shortage of ammunition provides an opportunity; and 4) SOIL is well equipped to develop loitering munitions, counter drones and long range rockets. Considering the aforesaid, we raise our FY25/26E EPS by 4%/16%; however, we maintain multiple as 55x as we still see significant prospects in defence space, which have not yet been captured in our estimates. Our revised TP works out to INR 10,950 (earlier INR 9,050). Maintain **BUY**.

Defence is the key driver

In Q4FY24, SOIL has received cumulative export orders worth INR 14.3bn of short duration (2-3 years). As a result, we expect defence revenue at INR 17.8bn and INR 23.5bn in FY25E and FY26E, respectively. Besides, we are positive on the following developments: 1) As per media articles ([Link](#)), 125kg bomb developed by SOIL has completed flight in Su-30MKI and is now looking for trials on Mirage-2000. Furthermore, the company is in the process of developing 1,000kg air bomb for both the above mentioned aircraft; 2) global shortage of artillery shells, particularly in Germany and US present an opportunity for SOIL in near to medium term; 3) in our view, Pinaka order is likely to be finalised soon, presenting the company an opportunity to boost exports further; and 4) Opportunities in loitering munitions and space present an attractive proposition. We believe these developments present a good growth path for SOIL to further deepen its presence in defence space.

Robust volume growth in sight

We believe SOIL would be able to register volume growth of 15% p.a. over the next couple of years. Besides, efforts are afoot to expand capacity in Nagpur, Rajasthan Explosives & Chemicals and come up with greenfield plants in Western and Southern India. Combined with traction in overseas markets, as the company is venturing in new markets such as Kazakhstan (mining) and Saudi Arabia (Construction), we believe volume growth is likely to sustain in near to medium term.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	69,225	61,558	81,102	1,00,005
EBITDA	12,889	14,234	20,478	26,605
EBITDA Margin (%)	18.6	23.1	25.2	26.6
Net Profit	7,575	8,761	13,419	17,998
EPS (INR)	83.7	96.8	148.3	198.9
EPS % Chg YoY	78.0	10.9	51.8	33.8
P/E (x)	104.0	93.7	61.7	46.1
EV/EBITDA (x)	66.1	49.5	34.2	25.9
RoCE (%)	27.2	24.7	29.2	31.0
RoE (%)	35.5	31.5	35.9	35.8

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Market Data

Market Cap (INR)	844bn
Market Cap (USD)	10,085mn
Bloomberg Code	SOIL IN
Reuters Code	SLIN.BO
52-week Range (INR)	9,421 / 3,453
Free Float (%)	27.0
ADTV-3M (mn) (USD)	15.4

Price Performance (%)	3m	6m	12m
Absolute	41.4	101.7	144.0
Relative to Sensex	38.9	91.4	118.9

Earnings Revisions (%)	FY25E	FY26E
Revenue	3.1	9.9
EBITDA	4.4	16.4
EPS	5.5	20.9

Previous Reports

12-03-2024: [Company Update](#)

09-02-2024: [Q3FY24 results review](#)

How we differ from consensus?

Our FY25E EPS is 14% ahead of consensus as street is still not considering the potential of defence orderbook at INR 22bn, order inflow and execution of Pinaka and other possible orders from exports and domestic defence space. As a result, consensus TP of INR 5,908 is significantly lower than the CMP. It is noteworthy that street has revised its estimate by 38% in the past 12months.

Outlook: Deepening defence presence

We believe investors who are accustomed to seeing SOIL as an explosives company need to see the company with a fresh view, as the proportion of revenue from defence is likely to rise to a meaningful 23-25% from FY25 (from a mere 5-6% over the past five years). Among segments, defence is likely to be the second-largest, after international business from FY25E. Besides, margins are likely to propel higher from current levels to over 25%. Factoring in robust order inflow and execution potential, we raise our FY25/26E EPS by 4%/16%, but maintain the multiple at 55x. Our revised TP works out to INR 10,950/share (earlier INR 9,050). Maintain **BUY**.

Exhibit 1: Earnings revision

(INR mn)	FY25E			FY26E		
	New	Old	% Chg	New	Old	% Chg
Sales	81,102	78,652	3.1	1,00,005	90,958	9.9
EBITDA	20,478	19,610	4.4	26,605	22,861	16.4
PAT	13,419	12,714	5.5	17,998	14,890	20.9

Source: I-Sec research

Key risks

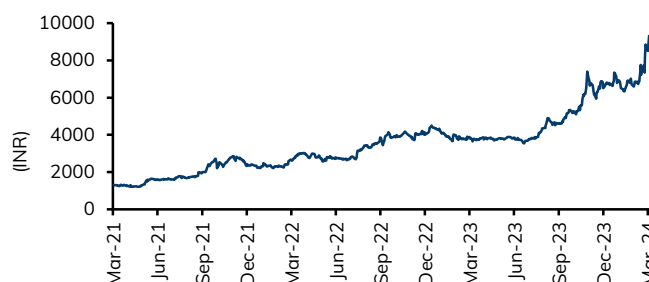
- Delay in awarding of Pinaka order.
- Further fall in ammonium nitrate price leading to negative price-cost spread.
- Slow traction in construction and infrastructure segments.

Exhibit 2: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	73.2	73.2	73.2
Institutional investors	20.8	21.1	20.9
MFs and others	14.7	14.9	14.5
FIs/Banks	0.0	0.0	0.5
FIIIs	6.1	6.2	5.9
Others	6.0	5.7	5.9

Source: Bloomberg

Exhibit 3: Price chart



Source: Bloomberg

Financial Summary

Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	69,225	61,558	81,102	1,00,005
Operating Expenses	12,912	12,853	13,744	14,451
EBITDA	12,889	14,234	20,478	26,605
EBITDA Margin (%)	18.6	23.1	25.2	26.6
Depreciation & Amortization	1,282	1,383	1,478	1,644
EBIT	11,607	12,851	19,001	24,961
Interest expenditure	904	1,051	1,004	961
Other Non-operating Income	315	370	460	423
Recurring PBT	11,019	12,170	18,456	24,422
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,904	3,168	4,789	6,138
PAT	8,114	9,002	13,667	18,284
Less: Minority Interest	540	241	249	286
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	8,114	9,002	13,667	18,284
Net Income (Adjusted)	7,575	8,761	13,419	17,998

Source Company data, I-Sec research

Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	25,144	23,650	33,377	47,023
of which cash & cash eqv.	2,601	3,913	8,455	20,443
Total Current Liabilities & Provisions	7,244	6,324	8,084	9,025
Net Current Assets	17,899	17,327	25,293	37,998
Investments	985	985	985	985
Net Fixed Assets	16,622	21,238	26,261	31,117
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,794	4,294	4,294	4,294
Total Intangible Assets	107	107	107	107
Other assets	2,047	2,047	2,047	2,047
Deferred Tax Assets	1,275	1,275	1,275	1,275
Total Assets	41,729	47,273	60,261	77,823
Liabilities				
Borrowings	12,633	9,853	9,853	9,853
Deferred Tax Liability	1,589	1,589	1,589	1,589
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	181	181	181	181
Reserves & Surplus	25,922	34,005	46,744	64,019
Total Net Worth	26,103	34,186	46,925	64,200
Minority Interest	1,404	1,645	1,893	2,179
Total Liabilities	41,729	47,273	60,261	77,823

Source Company data, I-Sec research

Exhibit 6: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sep-23	Dec-23
Net Sales	19,285	16,822	13,475	14,291
% growth (YOY)	46.5	4.1	(14.0)	(21.1)
EBITDA	3,575	3,231	3,362	3,562
Margin %	18.5	19.2	24.9	24.9
Other Income	113	82	77	109
Extraordinaries	-	-	-	-
Adjusted Net Profit	2,061	1,975	2,009	1,973

Source Company data, I-Sec research

Exhibit 7: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	6,565	12,951	12,264	19,751
Working Capital Changes	(2,357)	1,885	(3,425)	(716)
Capital Commitments	(5,251)	(7,500)	(6,500)	(6,500)
Free Cashflow	1,314	5,451	5,764	13,251
Other investing cashflow	61	370	460	423
Cashflow from Investing Activities	(5,190)	(7,130)	(6,040)	(6,078)
Issue of Share Capital	-	-	-	-
Interest Cost	(866)	(1,051)	(1,004)	(961)
Inc (Dec) in Borrowings	2,787	(2,779)	-	-
Dividend paid	-	-	-	-
Others	(740)	(679)	(679)	(723)
Cash flow from Financing Activities	1,182	(4,509)	(1,683)	(1,684)
Chg. in Cash & Bank balance	2,557	1,313	4,541	11,989
Closing cash & balance	3,544	3,913	8,455	20,443

Source Company data, I-Sec research

Exhibit 8: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	89.7	99.5	151.0	202.1
Adjusted EPS (Diluted)	83.7	96.8	148.3	198.9
Cash EPS	97.9	112.1	164.6	217.1
Dividend per share (DPS)	7.5	7.5	7.5	8.0
Book Value per share (BV)	288.5	377.8	518.6	709.5
Dividend Payout (%)	8.4	7.5	5.0	4.0
Growth (%)				
Net Sales	75.4	(11.1)	31.7	23.3
EBITDA	72.5	10.4	43.9	29.9
EPS (INR)	78.0	10.9	51.8	33.8
Valuation Ratios (x)				
P/E	104.0	93.7	61.7	46.1
P/CEPS	95.2	83.2	56.6	42.9
P/BV	32.3	24.7	18.0	13.1
EV / EBITDA	66.1	49.5	34.2	25.9
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	37.3	44.0	42.2	41.1
EBITDA Margins (%)	18.6	23.1	25.2	26.6
Effective Tax Rate (%)	26.4	26.0	25.9	25.1
Net Profit Margins (%)	11.7	14.6	16.9	18.3
Net Debt / Equity (x)	0.3	0.1	0.0	(0.2)
Net Debt / EBITDA (x)	0.7	0.3	0.0	(0.4)
Fixed Asset Turnover (x)	3.4	2.5	2.7	2.8
Inventory Turnover Days	90	57	56	46
Receivables Days	70	53	56	57
Payables Days	-	-	-	-
Profitability Ratios				
RoCE (%)	27.2	24.7	29.2	31.0
RoE (%)	35.5	31.5	35.9	35.8
RoIC (%)	29.3	27.0	33.3	38.7

Source Company data, I-Sec research

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