

Solar Industries

BSE SENSEX	S&P CNX
36,469	10,894
Bloomberg	SOIL IN
Equity Shares (m)	90
M.Cap.(INR b)/(USD b)	89.7 / 1.3
52-Week Range (INR)	1320 / 941
1, 6, 12 Rel. Per (%)	-9/-20/-10
12M Avg Val (INR M)	23
Free float (%)	26.9

Financials & Valuations (INR b)

Y/E Mar	2019E	2020E	2021E
Net Sales	24.7	30.6	39.1
EBITDA	5.0	6.4	8.6
Adj PAT	2.6	3.4	4.8
EPS (INR)	28.7	37.5	53.2
EPS Gr. (%)	17.9	30.6	41.7
BV/Sh. (INR)	142.7	172.8	215.3
RoE (%)	21.9	23.8	27.4
RoCE (%)	25.9	28.7	33.6
P/E (x)	34.4	26.3	18.6
P/BV (x)	6.9	5.7	4.6

Estimate change

TP change

Rating change


CMP: INR991
TP: INR1,125 (+14%)
Neutral

Operating performance impacted by weak margins

Revenue growth supported by volumes, realization improvement

■ **Operational performance below expectations:** 3QFY19 Consol. revenue increased 40.2% YoY to INR6.5b (our estimate: INR5.9b), supported by 15% volume growth and 25% realization growth. EBITDA grew 17% YoY to INR1.2b (below expectation). Margin contracted 380bp YoY to 18.6%, below our estimate of 21.5% due to (a) raw material price (ammonium nitrate) increase not being completely passed on to the end consumer, (b) forex loss of INR55m being impacted by INR appreciation, and (c) INR75m provision on account of ECL. Adj. net profit grew 28% YoY to INR686m, ahead of our estimate of INR665m on account of lower-than-estimated tax rate (23% v/s our estimate of 32%). In 9MFY19, revenue/EBITDA/PAT grew 33%/22%/22%.

Revenue growth across categories supported by strong realization improvement:

Consol. revenue was driven by the robust performance of overseas and export segment (+42% YoY). On the domestic front, 3Q saw robust demand from the infra and housing space (+38% YoY), and CIL (+50% YoY). Robust growth from CIL was supported by (a) weak base of 3QFY18 (-21% YoY), and (b) better realizations (+25% YoY) due to higher ammonium nitrate prices. SOIL expects growth from CIL to remain robust.

■ **Defense showing traction:** Revenue stood at INR409m (v/s INR99m in 3QFY18), led by better execution of orders in hand. SOIL expects revenue contribution to reach INR2b in FY19 from INR378m in FY18. Defense order backlog stands at INR4.3b, which it expects to execute by end-FY20.

■ **Maintain Neutral:** We marginally tweak our estimates to factor in below estimated margins and cut our earnings estimates by 2%/5% for FY19/20. We maintain our **Neutral** rating on the stock with a TP of INR1,125, valuing SOIL at 30x FY20E EPS (earnings CAGR of 24% over FY18-20). The stock trades at premium valuations (10-year average P/E multiple of 21x), given SOIL's presence in Defense (a huge business opportunity due to government focus) and strong growth in its core business segment of Explosives, led by pick-up in mining activity.

Quarterly Performance (Consolidated)

									(INR m)			
Y/E March	FY18				FY19				FY18	FY19E	FY19	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	Vs Est
Sales	4,667	4,084	4,657	5,753	6,147	5,209	6,530	6,765	19,161	24,651	5,895	10.8
Change (%)	15.8	28.7	10.5	30.1	31.7	27.5	40.2	17.6	21.3	28.6	26.6	
EBITDA	1,019	872	1,043	1,181	1,282	1,074	1,215	1,442	4,116	5,012	1,267	(4.2)
Change (%)	17.4	25.4	35.9	28.5	25.8	23.1	16.5	22.0	27.1	21.8	21.5	
As of % Sales	21.8	21.4	22.4	20.5	20.9	20.6	18.6	21.3	21.5	20.3	21.5	
Depreciation	125	128	137	123	140	151	150	144	513	585	146	
Interest	58	79	106	84	119	127	146	133	327	526	129	
Other Income	25	33	26	38	77	38	34	32	121	180	45	
PBT	860	699	826	1,012	1,100	833	952	1,196	3,396	4,081	1,037	(8.1)
Tax	261	216	249	334	371	283	216	417	1,061	1,286	332	
Effective Tax Rate (%)	30.4	30.9	30.2	33.0	33.7	33.9	22.6	34.8	31.2	31.5	32.0	
Reported PAT	548	457	537	659	678	520	686	716	2,206	2,600	665	3.1
Change (%)	9.3	16.9	8.3	17.7	23.8	13.7	27.8	8.7	4.5	17.9	24.0	
Adj PAT	548	457	537	659	678	520	686	716	2,206	2,600	665	3.1
Change (%)	16.3	16.9	8.3	17.7	23.8	13.7	27.8	8.7	13.3	17.9	24.0	

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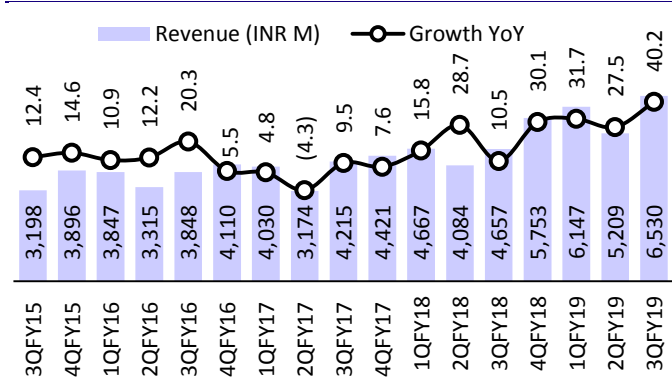
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Operational performance below estimates; Coal India support domestic revenue growth

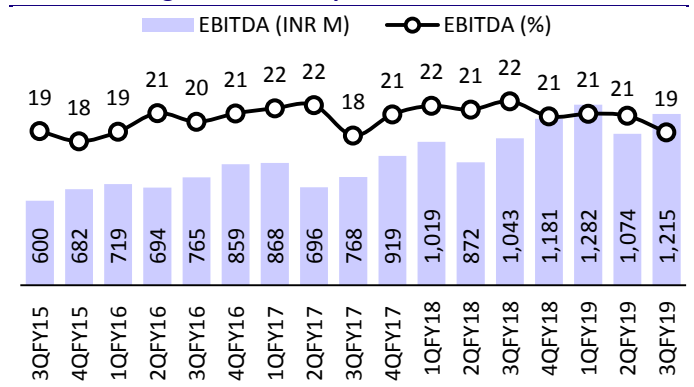
- Operational performance below expectations:** Consol. revenue increased 40.2% YoY to INR6.5b (our estimate: INR5.9b) in 3QFY19 supported by 15% volume growth and 25% realization growth. EBITDA grew 17% YoY to INR1.2b (below expectation); margin contracted 380bp YoY to 18.6%, below our estimate of 21.5% due to (a) raw material price (ammonium nitrate) increase not being completely passed on to the end consumer, (b) forex loss of INR55m impacted by INR appreciation, and (c) INR75m provision on account of ECL. Adj. net profit grew 28% YoY to INR686m, ahead of our estimate of INR665m on account of lower-than-estimated tax rate (23% v/s our estimate of 32%). In 9FY19, revenue/EBITDA/PAT grew 33%/22%/22%.
- Revenue growth across categories supported by strong realization improvement:** Consol. revenue was driven by a robust performance overseas and export segment (+42% YoY). On the domestic front, 3Q saw robust demand from the infra and housing space (+38% YoY), and CIL (+50% YoY). Robust growth from CIL was supported by (a) weak base of 3QFY18 (-21% YoY), and (b) better realizations (+25% YoY) due to higher ammonium nitrate prices. SOIL expects growth from CIL to remain robust.

Exhibit 1: Revenue growth above expectation led by healthy volume and realization growth



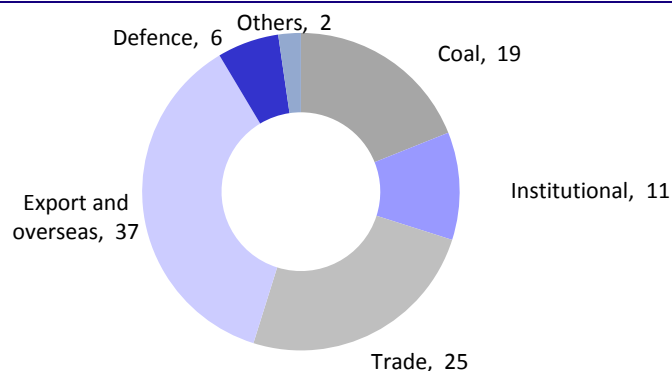
Source: MOSL, Company

Exhibit 2: Margin shrinks 380bp YoY



Source: MOSL, Company

- Defense showing traction:** Revenue from Defense business stood at INR409m (v/s INR99m in 3QFY18), led by better execution of orders in hand. SOIL expects revenue contribution to reach INR2b in FY19 from INR378m in FY18. Defense order backlog stands at INR4.3b, which it expects to execute by end-FY20.

Exhibit 3: Revenue mix during the quarter in favor of export and overseas

Source: MOSL, Company

Exhibit 4: Change in estimates

	Old Estimates			New Estimates		% Change	
	FY18	FY19E	FY20E	FY19	FY20	FY19E	FY20E
Sales	19,161	24,061	30,115	24,651	30,614	2.5	1.7
EBIDTA	4,116	5,101	6,593	5,012	6,357	-1.7	-3.6
PAT	2,206	2,657	3,559	2,600	3,395	-2.2	-4.6
EPS	24.4	29.4	39.3	28.7	37.5	-2.2	-4.6

Other key highlights of 3QFY19 results

- Revenue growth supported by 15% volume growth and 25% realization growth
- Margins during the quarter were impacted by (a) raw material price (ammonium nitrate) increase not being completely passed on to end consumers, (b) forex loss of INR55m being impacted by INR appreciation, and (c) INR75m provision on account of ECL.
- Solar has commissioned its South African facility with capex of USD11m, which contributed INR200m to FY18 revenue. Facility has incurred losses during the quarter and is expected to breakeven FY20 onwards.
- Defense revenue stood at INR1.1b in 9MFY18. Management expects defense revenue to reach INR2b in FY19 and has scaled down its FY20 defense revenue guidance by INR1b to INR4b, given the delay in RFP finalization.
- Breakeven level for defense business stands at INR2.4b, which it expects to achieve in FY20. Revenue target for FY20 is INR5b.
- Solar expects to complete the *Akash* booster order by Mar'19 and *Brahmos* booster order is expected to flow in, once the field trials are completed.
- Solar has scaled down its capex plans from INR3b to INR2.7b, of which it has spent INR2.1b.
- Solar plans to expand its overseas reach by increasing its manufacturing facilities (from five to 10 countries). The company expects its facility in Australia and Ghana to be ready by FY19-end, and contribution to start from FY20.
- Translation loss during the quarter stood at INR250m at revenue level, INR550m at EBIDTA level and INR667m at PAT level. Translational loss is mainly on account of Turkish currency depreciation.
- Tax rate stood at 23% as INR90m refund from earlier years was accounted during the quarter.
- Working capital days stood at 99days v/s 105 days in 2QFY19.

Vision 2020

- SOIL plans to increase sales volume from 3.00lac metric tons to 4.5lac metric tons. To enable this, SOIL plans to expand its capacity to produce 7lac metric tons.
- Plans to increase overseas revenue three-fold from the current INR3.5b; to enable this, it plans to increase its manufacturing reach from five to 10 countries.
- Plans to generate defense revenue of INR5b+.

Valuation and view

We marginally tweak our estimates to factor in below estimated margins and cut our earnings estimates by 2%/5% for FY19/20. We maintain our **Neutral** rating on the stock with a TP of INR1,125, valuing SOIL at 30x FY20E EPS (earnings CAGR of 24% over FY18-20). The stock trades at premium valuations (10-year average P/E multiple of 21x), given SOIL's presence in Defense (a huge business opportunity due to government focus), and strong growth in its core business segment of Explosives, led by a pick-up in mining activity.

Financial and valuations

Income Statement								(INR m)
Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Total Revenues	11,330	13,519	14,486	15,800	19,161	24,651	30,614	39,063
Change (%)	1.0	19	7	9	21	29	24	28
Raw Materials	5,908	7,687	8,767	9,065	10,636	14,552	18,329	23,365
Staff Cost	673	798	876	1,043	1,335	1,471	1,623	1,796
Other Expenses	2,719	2,494	1,801	2,453	3,075	3,616	4,305	5,266
EBITDA	2,030	2,540	3,042	3,239	4,116	5,012	6,357	8,636
% of Total Revenues	17.9	18.8	21.0	20.5	21.5	20.3	20.8	22.1
Other Income	112	79	133	132	121	180	280	280
Depreciation	219	315	328	387	513	585	729	783
Interest	179	179	204	269	327	526	626	694
Exceptional Items	100	100	0	0	0	0	0	0
PBT	1,644	2,026	2,642	2,715	3,396	4,081	5,282	7,439
Tax	349	463	867	767	1,061	1,286	1,672	2,382
Rate (%)	21.2	23	33	28	31	32	32	32
Reported PAT	1,375	1,643	1,775	1,947	2,336	2,600	3,395	4,812
Minority Interest	111	89	138	82	130	196	215	245
Adjusted PAT	1,184	1,474	1,637	1,865	2,206	2,600	3,395	4,812
Change (%)	1.8	24	11	14	18	18	31	42

Balance Sheet								(INR m)
Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Share Capital	181	181	181	181	181	181	181	181
Reserves	6,435	7,578	8,495	9,105	10,658	12,737	15,453	19,303
Net Worth	6,616	7,759	8,676	9,286	10,839	12,918	15,634	19,484
Minority Intetest	381	471	566	403	474	670	885	1,130
Loans	4,837	3,465	3,466	4,090	4,212	4,405	4,655	4,605
Deferred Tax Liability	270	444	433	840	1,011	1,011	1,011	1,011
Capital Employed	12,103	12,139	13,141	14,618	16,535	19,004	22,185	26,229
Gross Fixed Assets	5,796	7,122	8,606	9,606	11,438	13,523	15,752	18,036
Less: Depreciation	959	1,273	1,601	1,989	2,502	3,087	3,816	4,599
Net Fixed Assets	4,838	5,849	7,005	7,617	8,937	10,437	11,937	13,437
Capital WIP	810	611	482	909	968	1,046	1,046	1,046
Investments	252	374	382	533	171	147	147	147
Goodwill	71	0	0	150	402	402	402	402
Curr. Assets	7,554	7,059	7,587	8,064	9,474	10,614	12,836	16,160
Inventory	1,528	1,649	1,631	1,811	2,324	2,612	2,973	3,493
Debtors	1,853	1,913	2,659	3,191	3,636	4,113	4,712	5,576
Cash & Bank Balance	1,330	373	370	394	695	1,194	2,500	4,489
Loans & Advances	2,842	3,125	2,927	2,669	2,819	2,696	2,651	2,602
Current Liab. & Prov.	1,422	1,753	2,315	2,655	3,416	3,642	4,182	4,961
Creditors & other current liab.	1,422	1,753	2,315	2,655	3,416	3,642	4,182	4,961
Net Current Assets	6,132	5,306	5,273	5,409	6,058	6,973	8,654	11,199
Misc Expenses	0	0	0	0	0	0	0	0
Application of Funds	12,103	12,139	13,141	14,618	16,535	19,004	22,185	26,230

Financial and valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)								
Adj EPS	13.1	16.3	18.1	20.6	24.4	28.7	37.5	53.2
Cash EPS	15.5	19.8	21.7	24.9	30.0	35.2	45.6	61.8
Book Value	73.1	85.7	95.9	102.6	119.8	142.7	172.8	215.3
DPS	2.3	3.4	4.5	3.4	4.0	4.8	6.2	8.8
Payout (incl. Div. Tax.)	19	23	29	20.0	20.0	20.0	20.0	20.0
Valuation (x)								
P/E	22.9	60.6	54.6	47.9	40.5	34.4	26.3	18.6
Cash P/E	19.4	50.0	45.5	39.7	32.9	28.1	21.7	16.0
EV/EBITDA	15.1	36.4	30.4	28.7	22.6	18.5	14.4	10.4
EV/Sales	2.7	6.8	6.4	5.9	4.8	3.8	3.0	2.3
Price/Book Value	4.1	11.5	10.3	9.6	8.2	6.9	5.7	4.6
Dividend Yield (%)	0.8	0.3	0.5	0.3	0.4	0.5	0.6	0.9
Profitability Ratios (%)								
RoE	20.5	21.6	19.9	20.8	21.9	21.9	23.8	27.4
RoCE	13.7	14.7	15.1	15.4	23.9	25.9	28.7	33.6
RoIC	16.1	16.8	16.1	16.6	18.0	19.4	21.9	27.3
Turnover Ratios								
Debtors (Days)	60	52	67	74	69	61	56	52
Inventory (Days)	49	45	41	42	44	39	35	33
Creditors. (Days)	46	47	58	61	65	54	50	46
Asset Turnover (x)	0.9	1.1	1.1	1.1	1.2	1.3	1.4	1.5
Leverage Ratio								
Debt/Equity (x)	0.5	0.4	0.4	0.4	0.3	0.2	0.1	0.0

Cash Flow Statement

(INR m)

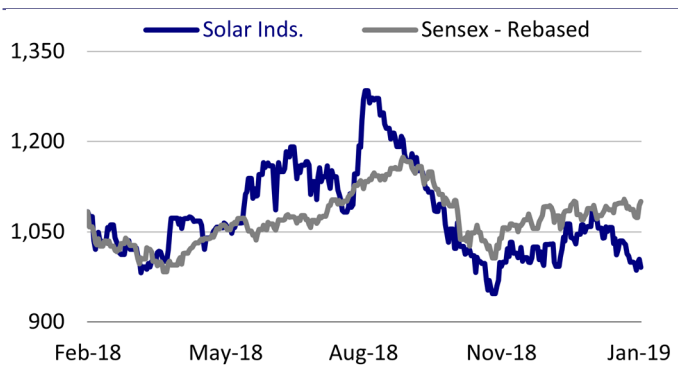
Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
PBT before EO Items	1,644	2,026	2,642	2,715	3,396	4,081	5,282	7,439
Add : Depreciation	219	315	328	387	513	585	729	783
Interest	179	179	204	269	327	526	626	694
Less : Direct Taxes Paid	-349	-463	-867	-767	-1,061	-1,286	-1,672	-2,382
(Inc)/Dec in WC	-484	-132	31	-113	-349	-416	-375	-556
CF from Operations	1,209	1,925	2,339	2,491	2,827	3,491	4,590	5,979
(Inc)/Dec in FA	-1,593	-1,125	-1,355	-2,298	-2,243	-2,162	-2,229	-2,283
Invest. in liquid assets	100	153	-331	-151	362	24	0	0
CF from Investments	-1,494	-972	-1,687	-2,449	-1,881	-2,138	-2,229	-2,283
(Inc)/Dec in Debt	1,116	-1,371	26	623	123	192	250	-50
Less : Interest Paid	-179	-179	-204	-271	-327	-526	-626	-694
Dividend Paid	-244	-360	-476	-373	-441	-520	-679	-962
CF from Fin. Activity	694	-1,910	-655	-21	-646	-853	-1,055	-1,706
Inc/Dec of Cash	409	-957	-3	22	301	499	1,306	1,989
Add: Beginning Balance	922	1,330	373	370	392	693	1,194	2,500
Closing Balance	1,330	373	370	392	693	1,194	2,500	4,489

Corporate profile

Company description

SOIL is India's leading explosives manufacturer, having a licensed capacity of 290k tons of bulk and cartridge explosives across 20 manufacturing locations within India. It also has manufacturing units across Nigeria and Zambia to cater to African markets. Its Turkey plant caters to growth opportunities from CIS nations.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Dec-18	Sep-18	Dec-17
Promoter	73.2	73.2	73.2
DII	20.2	20.2	20.0
FII	1.4	1.3	1.7
Others	5.3	5.3	5.2

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Hdfc Trustee Company Limited- Hdfc Balanced Advantage Fund	7.0
Sbi Equity Hybrid Fund	4.7
Kotak Standard Multicap Fund	3.0
ICICI Prudential Life Insurance Company Limited	2.1
Dsp Midcap Fund	1.8

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Satyanarayan Nuwal	Chairman & Exec. Director
Kailashchandra Nuwal	Vice Chairman & Executive Dire
Manish Nuwal	Managing Director & CEO
Khushboo Pasari	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Ajai Nigam	Dilip Patel
Amrendra Verma	Madhu Vij
Anant Sagar Awasthi	Anil Kumar Jain
	Suresh Menon

*Independent

Exhibit 6: Auditors

Name	Type
Akshay Rathi & Associates	Statutory
Anant B Khamankar & Co	Secretarial Audit
D L & Associates	Internal
Ekbote Deshmukh & Co	Internal
Khanuja Patra & Associates	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	28.7	28.9	-0.7
FY20	37.5	37.4	0.2
FY21	53.2	48.3	10.2

Source: Bloomberg

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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