

04 July 2024

India | Equity Research | Company Update

Solar Industries

Defence

More arrows in its quiver

Solar Industries (SOIL) has developed three new explosives: 1) SEBEX-2 with lethality of 2.01x of TNT. 2) SITBEX-1, a solid thermobaric polymer-bonded explosive. 3) SIMEX-4, a new insensitive explosive formulation. These new explosives exhibit higher performance and lethality compared to the existing ones. As per media reports ([Link](#)), the Indian Navy has successfully completed certification tests for all the three explosives. Hence, SOIL's defence revenue is likely to receive a further boost both from domestic opportunities and exports to neighbouring countries. Taking cognizance of the improved prospects, we raise our P/E multiple to 65x (earlier 55x) based on FY26E EPS, resulting in a revised TP of INR 13,250 (earlier INR 11,000). We maintain **BUY** on SOIL.

New explosives brighten prospects further

SOIL has developed three new explosives that would result in enhancing the effectiveness of warheads, aerial bombs, artillery shells and underwater weapons. Indian Navy has recently completed successful certification tests for all the three – SEBEX-2, SITBEX-1 and SIMEX-4. Key points: 1) SEBEX-2 is a castable explosive made with HMX, having TNT equivalence of 2.01x. The conventional explosive, used in the Brahmos missile, has a TNT equivalence of about 1.5x; and, most explosives used in warheads around the world have a TNT equivalence between 1.25x and 1.3x. Our channel checks indicate that efforts are afoot to increase the lethality to 2.3x TNT equivalence. 2) SITBEX-1 is among the specialised class of explosives that prioritises a prolonged blast duration and intense heat generation, making them effective against fortified positions, enclosed spaces and personnel. In the test conducted by Indian Navy, fireball temperature, fireball diameter and blast impulse of SITBEX-1 were found to be higher by 20%, 35% and 28%, respectively, compared to the conventional RDX/TNT (60/40) explosive composition. 3) SIMEX-4 would find utility in insensitive munitions, which are safe during storage, transportation and operations, such as torpedo warheads in the confined spaces of a submarine. During the tests, the shock sensitivity and critical diameter of SIMEX-4 was more than 110kbar and 75mm. In comparison, the present insensitive composition being used in warhead of 'Varunastra' has a shock sensitivity of 45–47kbar and critical diameter of about 43mm.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	69,225	60,695	81,062	1,05,324
EBITDA	12,889	13,692	19,417	27,879
EBITDA Margin (%)	18.6	22.6	24.0	26.5
Net Profit	7,575	8,356	12,430	18,429
EPS (INR)	83.7	92.3	137.4	203.7
EPS % Chg YoY	78.0	7.8	46.5	49.4
P/E (x)	128.0	118.7	81.0	54.2
EV/EBITDA (x)	81.3	76.3	53.8	37.1
RoCE (%)	27.2	23.8	27.5	32.6
RoE (%)	35.5	30.6	34.5	38.0

Amit Dixit

amit.dixit@icicisecurities.com
+91 22 6807 7289

Mohit Lohia

mohit.lohia@icicisecurities.com

Prithish Urumkar

Prithish.urumkar@icicisecurities.com

Market Data

Market Cap (INR)	1,038bn
Market Cap (USD)	12,443mn
Bloomberg Code	SOIL IN
Reuters Code	SLIN.BO
52-week Range (INR)	12,539 /3,453
Free Float (%)	27.0
ADTV-3M (mn) (USD)	25.6

Price Performance (%)	3m	6m	12m
Absolute	30.8	71.1	208.1
Relative to Sensex	22.5	59.0	185.4

Previous Reports

18-05-2024: [Q4FY24 results review](#)

25-03-2024: [Company Update](#)

Defence revenue likely to get a boost

These explosives have not been developed by any other company in India thus far; hence, SOIL is likely to have the first-mover advantage. **In our view, this is a reflection of strong in-house R&D capabilities, the company has developed over a period of time.** Besides, we believe that there could be significant export opportunities to friendly countries. In our view, this development is likely to boost SOIL's defence revenue in medium term. In the near term, the company's defence revenue has the potential to find reinforcement from the commencement of supply of loitering munition (Nagastra-1) to the Indian Army, likely order for Pinaka and export orders already received in Q4FY24.

We peg revenue from defence at INR 17bn/INR 23bn for FY25/FY26.

Outlook: Increasing footprint in defence, a key positive

We believe that the certification of the three new explosives by the Indian Navy is a significant development for SOIL, as these are based on in-house R&D efforts. Management has earmarked INR 4bn in FY25 as capex for defence (compared to the gross block of INR 10bn), alluding to the significant focus in the space.

Taking cognizance of this development and possible uptick in its earnings beyond the forecast period, we raise our P/E multiple to 65x (earlier 55x), leading to a revised TP of INR 13,250. We maintain our **BUY** rating on SOIL and continue to recommend it as the top pick in the defence space.

Key risks

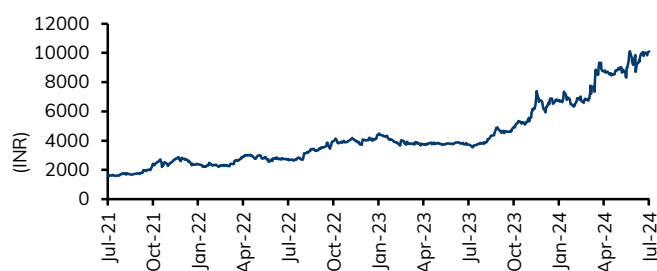
- Delay in awarding of Pinaka order.
- Further fall in ammonium nitrate price leading to negative price-cost spread.
- Slow traction in construction and infrastructure segments.

Exhibit 1: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	73.2	73.2	73.2
Institutional investors	21.1	21.0	20.6
MFs and others	14.9	14.5	13.8
FIs/Banks	0.0	0.3	0.3
FIIIs	6.2	6.2	6.5
Others	5.7	5.8	6.2

Source: Bloomberg

Exhibit 2: Price chart



Source: Bloomberg

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	69,225	60,695	81,062	1,05,324
Operating Expenses	12,912	15,041	15,906	16,557
EBITDA	12,889	13,692	19,417	27,879
EBITDA Margin (%)	18.6	22.6	24.0	26.5
Depreciation & Amortization	1,282	1,434	1,604	1,880
EBIT	11,607	12,258	17,812	25,999
Interest expenditure	904	1,094	1,064	1,012
Other Non-operating Income	315	445	565	619
Recurring PBT	11,019	11,609	17,313	25,606
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,904	2,861	4,498	6,455
PAT	8,114	8,749	12,815	19,151
Less: Minority Interest	540	393	385	722
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	8,114	8,749	12,815	19,151
Net Income (Adjusted)	7,575	8,356	12,430	18,429

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	25,144	24,349	29,665	41,747
of which cash & cash eqv.	2,601	2,873	(28)	11,209
Total Current Liabilities & Provisions	7,244	7,546	9,556	10,929
Net Current Assets	17,899	16,803	20,110	30,818
Investments	985	3,699	3,699	3,699
Net Fixed Assets	16,622	19,607	26,603	34,324
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,794	2,874	2,874	2,874
Total Intangible Assets	107	298	298	298
Other assets	2,047	3,819	3,819	3,819
Deferred Tax Assets	1,275	1,602	1,602	1,602
Total Assets	41,729	48,702	59,004	77,433
Liabilities				
Borrowings	12,633	12,452	10,617	10,617
Deferred Tax Liability	1,589	1,978	1,978	1,978
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	181	181	181	181
Reserves & Surplus	25,922	32,875	44,627	62,333
Total Net Worth	26,103	33,056	44,808	62,514
Minority Interest	1,404	1,217	1,602	2,324
Total Liabilities	41,729	48,702	59,004	77,433

Source Company data, I-Sec research

Exhibit 5: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
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 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	6,565	14,060	8,712	21,953
Working Capital Changes	(2,357)	1,804	(6,207)	529
Capital Commitments	(5,251)	(7,468)	(8,600)	(9,600)
Free Cashflow	1,314	6,592	112	12,353
Other investing cashflow	61	203	565	619
Cashflow from Investing Activities	(5,190)	(7,265)	(8,035)	(8,981)
Issue of Share Capital	-	-	-	-
Interest Cost	(866)	(1,307)	(1,064)	(1,012)
Inc (Dec) in Borrowings	2,787	(1,556)	(1,835)	-
Dividend paid	-	-	-	-
Others	(740)	(840)	(679)	(723)
Cash flow from Financing Activities	1,182	(3,703)	(3,577)	(1,735)
Chg. in Cash & Bank balance	2,557	3,093	(2,900)	11,237
Closing cash & balance	3,544	5,694	(28)	11,209

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	89.7	96.7	141.6	211.6
Adjusted EPS (Diluted)	83.7	92.3	137.4	203.7
Cash EPS	97.9	108.2	155.1	224.4
Dividend per share (DPS)	7.5	7.5	7.5	8.0
Book Value per share (BV)	288.5	365.3	495.2	690.8
Dividend Payout (%)	8.4	7.8	5.3	3.8
Growth (%)				
Net Sales	75.4	(12.3)	33.6	29.9
EBITDA	72.5	6.2	41.8	43.6
EPS (INR)	78.0	7.8	46.5	49.4
Valuation Ratios (x)				
P/E	128.0	118.7	81.0	54.2
P/CEPS	117.3	106.1	74.0	51.1
P/BV	39.8	31.4	23.2	16.6
EV / EBITDA	81.3	76.3	53.8	37.1
P / Sales	15.0	17.1	12.8	9.9
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	37.3	47.3	43.6	42.2
EBITDA Margins (%)	18.6	22.6	24.0	26.5
Effective Tax Rate (%)	26.4	24.6	26.0	25.2
Net Profit Margins (%)	11.7	14.4	15.8	18.2
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.3	0.2	0.1	(0.1)
Net Debt / EBITDA (x)	0.7	0.4	0.4	(0.2)
Profitability Ratios				
RoCE (%)	27.2	23.8	27.5	32.6
RoE (%)	35.5	30.6	34.5	38.0
RoC (%)	29.3	26.4	30.4	37.9
Fixed Asset Turnover (x)	3.4	2.5	2.7	2.8
Inventory Turnover Days	90	55	58	42
Receivables Days	70	55	66	68
Payables Days	-	-	-	-

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
