

14 November 2024

India | Equity Research | Q2FY25 results review

Solar Industries

Defence

Solid performance; defence shines

Solar Industries' (SOIL) Q2FY25 performance was in line with our estimates. Key points: 1) EBITDA (adj.) at INR 4.6bn (up 33% YoY) was in line. 2) Defence and exports businesses were the key earnings movers. 3) Order book (OB) stood at INR 57bn, of which INR 33.4bn is for defence. 4) EBITDA margin was at a healthy 25.9%. 5) FY25 capex guidance raised to INR 12bn, from INR 8bn. Ahead, we expect significant traction in defence as the Pinaka order is expected to be received soon and may trigger similar international orders. Also, we see notable potential in SOIL's recently-developed explosives and the first indigenous chaffs and flares plant commissioned by the company. We maintain **BUY** and an unchanged TP of INR 13,250 based on 65x FY26E EPS.

Good showing tethered by exports and defence segments

SOIL's Q2FY25 EBITDA (adj.) was in-line with our estimates, but 10% lower compared to Street. Key points: 1) Sales volume (domestic) rose 7% YoY to 106.1kte while realisation was broadly stable at INR 50,379/te. 2) Exports and overseas revenue rose 25% YoY to INR 8bn aided by contribution from the recently-acquired Problast BS Pty. Ltd. 3) Defence revenue jumped 204% YoY to INR 3.2bn. 4) Working capital days (WCD) rose to 89 days, from 84 days QoQ; however, still persisted below the targeted level of 90 days. 5) South African subsidiary continues to be PAT positive; new operations in Indonesia and Australia are positive at EBITDA level. 6) OB as on end-Sep'24 is at INR 57bn, of which INR 33.6bn is for defence and the rest for commercial explosives. Management has: 1) maintained defence revenue guidance of INR 15bn for FY25; and 2) raised FY25 capex guidance to INR 12bn, from INR 8bn.

Defence, the key monitorable for us

Taking cognisance of management's guidance, we expect defence's revenue to be almost INR 10bn in H2FY25. The defence OB remains firm at INR 33.6bn, of which 80–83% comprises (short duration) export orders. Management expects the Pinaka order to be awarded soon, which in turn could open up opportunities for similar orders to friendly countries. Going ahead, we see several prospective orders including, recently developed: SEBEX_2, SITBEX-1, and SIMEX-4 and chaffs and flares.

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	12,505	18,442
EPS (INR)	83.7	92.3	138.2	203.8
EPS % Chg YoY	78.0	7.8	47.5	48.5
P/E (x)	108.0	100.2	67.9	45.7
EV/EBITDA (x)	68.7	64.5	45.7	31.5
RoCE (%)	27.2	23.8	27.4	32.3
RoE (%)	35.5	30.6	34.6	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)	877bn
Market Cap (USD)	10,389mn
Bloomberg Code	SOIL IN
Reuters Code	SLIN.BO
52-week Range (INR)	13,300 /5,909
Free Float (%)	27.0
ADTV-3M (mn) (USD)	7.0

Price Performance (%)	3m	6m	12m
Absolute	(3.7)	11.7	56.3
Relative to Sensex	(2.1)	4.9	36.6

ESG Score	2022	2023	Change
ESG score	53.2	59.4	6.2
Environment	29.7	34.7	5.0
Social	44.8	69.8	25.0
Governance	73.1	69.6	(3.5)

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Previous Reports

08-08-2024: [Q1FY25 results review](#)

04-07-2024: [Company Update](#)

Outlook: Expect EPS CAGR of 49% through to FY26E

We expect EPS growth of 49% CAGR through to FY26E with further improvement in margins, as defence proportion increases beyond 20% by FY26E and operations at new geographies such as Australia, Indonesia, Saudi Arabia and Kazakhstan ramp up. We peg domestic explosives growth at 15% YoY through to FY26E.

We retain our estimates at this stage and maintain **BUY** with an unchanged TP of INR 13,250 based on 65x FY26E.

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.

Q2FY25 conference call: Takeaways

- Management is reasonably confident of achieving 25%-plus EBITDA margins going ahead
- Management revised its annual capex guidance significantly upward from INR 8bn to ~INR 12bn for FY25.
- SOIL recently bagged a two-year order from Singereni Collieries worth ~INR 8.87bn and defence products worth ~INR 11bn, consolidating its current OB to INR 57bn.
- **OB split** – Defence: INR 33.36bn; and explosives: INR 24.24bn.
- International and defence businesses are unfolding and increasing margins. In the past few years, the company was trying to develop these businesses and now they are on their own. In the international market as well, the company is expanding volumes.
- Management mentioned that they have developed path-breaking future products in defence such as new explosives that are undergoing qualifications. In chaffs and flares, SOIL will likely participate in upcoming RFPs.
- Management expects Pinaka order to be awarded soon and expects it to be a big milestone for the company. There could be export opportunities for Pinaka to friendly countries as well.
- DRDO Longer-range Pinaka rocket development is in initial stages.
- Bhargavastra is in the qualification stage and might take more than a year to be awarded.
- Ammonium Nitrate prices have been flat YoY. They have stabilised in Oct'24, after falling in Q2FY25.
- Mining and infrastructure activity in the domestic market was adversely impacted by prolonged rainfall.
- Management mentioned that growth momentum is being witnessed in African subsidiaries. The subsidiaries are positive at EBITDA level in Australia and in other new geographies
- The company should be debt free by end-FY25 due to advances received from defence orders.
- WCD is up at 89, still lower than internal target of 90. Management is confident that there would be cash inflow from unlocking of receivable and inventory in H2FY25.
- Cost of purchased goods has gone up significantly as the company has commenced execution of loitering munitions order.
- Inflationary environment is still being seen in Ghana, Turkey and Zimbabwe; but it is better compared to last year.

Exhibit 1: SOIL Q2FY25 standalone performance review

(INR mn)	Q2FY25	Q2FY24	Chg YoY (%)	Q1FY25	Chg QoQ (%)	FY24	FY23	Chg YoY (%)
Net Sales	9,055	8,303	9.1	10,446	(13.3)	37,175	41,623	(10.7)
Total Income	9,055	8,303	9.1	10,446	(13.3)	37,175	41,623	(10.7)
Expenditure								
Change in Stock	(113)	103		(76)		202	(55)	
Consumption of Material	4,515	4,114	9.7	5,902	(23.5)	20,486	27,968	(26.8)
Purchase of traded goods	622	737	(15.6)	513	21.1	2,326	2,136	8.9
Employee Costs	528	426	23.9	527	0.1	1,855	1,454	27.6
Other Expenditure	1,192	931	28.0	998	19.5	3,959	3,832	3.3
Total Expenditure	6,744	6,312	6.8	7,865	(14.3)	28,829	35,334	(18.4)
EBITDA	2,311	1,992	16.0	2,581	(10.5)	8,347	6,288	32.7
EBITDA Margin	25.5	24.0		24.7		22.5	15.1	
Other Income	316	136	133.3	258	22.7	583	558	4.5
Depreciation	179	157	13.6	169	5.5	634	570	11.1
Interest and Finance Costs	67	63	6.3	62	7.9	296	276	7.3
Exceptional Items	-	-		-		-	-	
PLT	2,382	1,907	24.9	2,608	(8.7)	8,001	6,001	33.3
Tax Expense	580	495	17.1	666		2,038	1,547	31.7
MI	-	-		-		-	-	
PAT	1,802	1,412	27.6	1,942	(7.2)	5,963	4,454	33.9
OCI	94	(0)		-		-	-	
TCI	1,895	1,412		1,942		5,963	4,454	

Source: I-Sec research, Company data

Exhibit 2: SOIL Q2FY25 consolidated performance review

(INR mn)	Q2FY25	Q2FY24	Chg YoY (%)	Q1FY25	Chg QoQ (%)	FY24	FY23	Chg YoY (%)
Net Sales	17,158	13,475	27.3	16,948	1.2	60,695	69,225	(12.3)
Other Operating Income	-	-		-		-	-	
Total Income	17,158	13,475	27.3	16,948	1.2	60,695	69,225	(12.3)
Expenditure								
Change in Stock	(508)	83		(403)		836	(374)	
Consumption of Material	6,408	5,477	17.0	8,140	(21.3)	27,100	36,215	(25.2)
Purchase of traded goods	2,530	967	161.5	966	162.0	4,026	7,583	(46.9)
Employee Costs	1,447	1,033	40.0	1,311	10.4	4,335	3,527	22.9
Other Expenditure	2,834	2,553	11.0	2,441	16.1	10,707	9,385	14.1
Total Expenditure	12,711	10,113	25.7	12,454	2.1	47,003	56,336	(16.6)
EBITDA	4,448	3,362	32.3	4,494	(1.0)	13,692	12,889	6.2
EBITDA Margin (%)	25.9	24.9		26.5		22.6	18.6	
Adjusted EBITDA	4,628	4,255	8.8	4,581	1.0			
Other Income	305	77	294.4	243	25.4	445	315	41.1
Depreciation	436	337	29.5	400	9.1	1,434	1,282	11.8
Interest and Finance Costs	297	249	19.5	275	8.3	1,094	904	21.0
Exceptional Items	-	-		-		-	-	
PLT	4,019	2,853	40.9	4,062	(1.1)	11,609	11,019	5.4
Tax Expense	1,032	755	36.6	1,078	(4.2)	1,327	2,904	(54.3)
-Current Tax	1,051	775		1,049	0.2	1,540	3,140	
-Deferred Tax	(19)	(19)		29		(212)	(236)	
-Prior Period Taxes	-	-		-		-	-	
PAT Before MI	2,987	2,098		2,985	0.1	10,282	8,114	
MI	51	(8)		21	146.4	297	540	
PAT	3,038	2,090	45.4	3,005	1.1	9,985	7,575	31.8
OCI	(77)	(393)		46		(1,445)	(289)	
TCI	2,961	1,697		3,051		8,541	7,286	

Source: Company data, I-Sec research

Exhibit 3: SOIL operational performance review

(INR mn)	Q2FY25	Q2FY24	Chg YoY (%)	Q1FY25	Chg QoQ (%)
Explosive					
Quantity (te)	1,06,057	99,410	6.7	1,50,339	(29.5)
Blended Realisation/te	50,379	51,245	(1.7)	51,832	(2.8)
Blended Gross Margin/te	38,010	33,690	12.8	27,314	39.2
Blended EBITDA/te	21,792	20,037	8.8	17,171	26.9
Price of explosive (Rs/te)	50,379	51,245	(1.7)	51,832	(2.8)
Value of explosives(Rs mn)	5,343	5,094	4.9	7,792	(31.4)
Accessories (Rs mn)	-	1,340	(100.0)	-	-

Source: I-Sec research, Company data

Exhibit 4: SOIL revenue breakdown

(INR mn)	Q2FY25	Q2FY24	Chg YoY (%)	Q1FY25	Chg QoQ (%)
Sales breakdown	17,160	13,470	27.4	16,850	1.8
CIL	1,690	1850	(8.6)	2460	(31.3)
Institutional	2,240	2040	9.8	3040	(26.3)
Housing & Infra	1,910	2040	(6.4)	3530	(45.9)
Exports & Overseas	7,990	6390	25.0	5790	38.0
Defence	3,220	1060	203.8	1940	66.0
Others	110	90	22.2	90	22.2

Source: Company data, I-Sec research

Exhibit 5: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	73.2	73.2	73.2
Institutional investors	20.6	20.2	20.2
MFs and others	13.8	12.3	11.7
FIs/Banks	0.3	0.3	0.7
FIIIs	6.5	7.6	7.8
Others	6.2	6.6	6.6

Source: Bloomberg

Exhibit 6: Price chart



Source: Bloomberg

Financial Summary

Exhibit 7: 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	1,679	2,056
EBIT	11,607	12,258	17,738	25,823
Interest expenditure	904	1,094	1,064	1,012
Other Non-operating Income	315	445	758	812
Recurring PBT	11,019	11,609	17,432	25,623
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,904	2,861	4,529	6,459
PAT	8,114	8,749	12,903	19,164
Less: Minority Interest	540	393	398	721
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	8,114	8,749	12,903	19,164
Net Income (Adjusted)	7,575	8,356	12,505	18,442

Source Company data, I-Sec research

Exhibit 8: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	25,144	24,349	26,427	36,297
of which cash & cash eqv.	2,601	2,873	(3,266)	5,760
Total Current Liabilities & Provisions	7,244	7,546	9,556	10,929
Net Current Assets	17,899	16,803	16,872	25,368
Investments	985	3,699	3,699	3,699
Net Fixed Assets	16,622	19,607	29,929	39,873
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	59,092	77,533
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	44,702	62,421
Total Net Worth	26,103	33,056	44,883	62,602
Minority Interest	1,404	1,217	1,614	2,335
Total Liabilities	41,729	48,702	59,092	77,533

Source Company data, I-Sec research

Exhibit 9: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	14,291	16,107	16,948	17,158
% growth (YOY)	6.1	12.7	(72.1)	1.2
EBITDA	3,562	3,537	4,494	4,448
Margin %	24.9	22.0	26.5	25.9
Other Income	109	177	243	305
Extraordinaries	-	-	-	-
Adjusted Net Profit	1,973	2,262	3,005	3,038

Source Company data, I-Sec research

Exhibit 10: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	6,565	14,060	8,681	21,949
Working Capital Changes	(2,357)	1,804	(6,207)	529
Capital Commitments	(5,251)	(7,468)	(12,000)	(12,000)
Free Cashflow	1,314	6,592	(3,319)	9,949
Other investing cashflow	61	203	758	812
Cashflow from Investing Activities	(5,190)	(7,265)	(11,242)	(11,188)
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	(6,138)	9,026
Closing cash & balance	3,544	5,694	(3,266)	5,760

Source Company data, I-Sec research

Exhibit 11: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	89.7	96.7	142.6	211.8
Adjusted EPS (Diluted)	83.7	92.3	138.2	203.8
Cash EPS	97.9	108.2	156.7	226.5
Dividend per share (DPS)	7.5	7.5	7.5	8.0
Book Value per share (BV)	288.5	365.3	496.0	691.8
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	47.5	48.5
Valuation Ratios (x)				
P/E	108.0	100.2	67.9	45.7
P/CEPS	99.0	89.6	61.8	42.8
P/BV	33.6	26.5	19.5	14.0
EV / EBITDA	68.7	64.5	45.7	31.5
P / Sales	12.7	14.4	10.8	8.3
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	15.9	18.2
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.3	0.2	0.2	0.0
Net Debt / EBITDA (x)	0.7	0.4	0.5	0.0
Profitability Ratios				
RoCE (%)	27.2	23.8	27.4	32.3
RoE (%)	35.5	30.6	34.6	38.0
RoIC (%)	29.3	26.4	29.5	35.6
Fixed Asset Turnover (x)	3.4	2.5	2.6	2.6
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. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122
