# SOLAR INDUSTRIES



RESULT UPDATE

## KEY DATA

| Rating | BUY |
|---|---|
| Sector relative | Outperformer |
| Price (INR) | 9,115 |
| 12 month price target (INR) | 11,000 |
| 52 Week High/Low | 13,300/6,551 |
| Market cap (INR bn/USD bn) | 825/9.4 |
| Free float (%) | 26.9 |
| Avg. daily value traded (INR mn) | 928.7 |

## SHAREHOLDING PATTERN

| | Dec-24 | Sep-24 | Mar-24 |
|---|---|---|---|
| Promoter | 73.15% | 73.15% | 73.15% |
| FII | 7.53% | 7.53% | 6.1% |
| DII | 12.68% | 12.68% | 14.52% |
| Pledge | 0.55% | 0.55% | 0.55% |

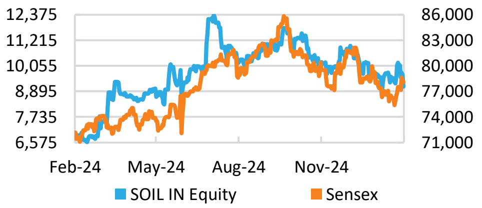
## FINANCIALS (INR mn)

| Year to March | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|
| Revenue | 60,695 | 73,894 | 92,468 | 1,15,452 |
| EBITDA | 13,692 | 19,433 | 23,549 | 29,498 |
| Adjusted profit | 8,357 | 11,640 | 14,884 | 19,911 |
| Diluted EPS (INR) | 92.3 | 128.6 | 164.5 | 220.0 |
| EPS growth (%) | 10.3 | 39.3 | 27.9 | 33.8 |
| RoAE (%) | 28.3 | 29.7 | 28.5 | 29.2 |
| P/E (x) | 98.7 | 70.9 | 55.4 | 41.4 |
| EV/EBITDA (x) | 59.3 | 41.7 | 34.0 | 26.8 |
| Dividend yield (%) | 0.1 | 0.1 | 0.1 | 0.1 |

## CHANGE IN ESTIMATES

| | Revised estimates | | % Revision | |
|---|---|---|---|---|
| Year to March | FY25E | FY26E | FY25E | FY26E |
| Revenue | 73,894 | 92,468 | (12.7%) | (10.3%) |
| EBITDA | 19,433 | 23,549 | (3.2%) | (8.2%) |
| Adjusted profit | 11,640 | 14,884 | (9.8%) | (12.2%) |
| Diluted EPS (INR) | 128.6 | 164.5 | (9.8%) | (12.2%) |

## PRICE PERFORMANCE




# Positioning for future growth

Solar Industries (SOIL) posted another strong quarter on robust execution driving up Q3FY25 revenue 38% YoY and OPM to ~26.7% (~25% guided) on rising defence mix (5.6x YoY) plus exports (20%+ YoY). OB swelled to INR71bn-plus with ~INR50bn of defence mix. Highlights: i) Signed MoU for INR127bn capex to anchor major defence projects. ii) FY25 volume/revenue guidance trimmed. iii) Much-awaited Pinaka order (~INR60bn) obtained (potential game changer).

Upgrade to 'BUY' as we envisage exports and defence as prime growth drivers setting off a revenue CAGR of 24%+ over FY24–27E and OPM of ~25.5% by FY27E, yielding a TP of INR11,000 (earlier INR11,207) at 50x FY27E EPS. *This note marks transfer of coverage.*

## Robust execution, OPM intact; FY25 guidance cut

Consolidated revenue grew 38% YoY to INR19.7bn (defence business surged 5.6x YoY to INR4.1bn). GM came in at 47.9% for the quarter, up 50bp YoY. EBITDA margin expanded 180bp YoY to 26.7% (Q2FY25 at 25.9%), *higher than its guidance of ~25%* led by a mix of better GMs as well as operating leverage. PAT shot up 55% YoY to INR3.1bn. PAT margin grew to 16%, 180bp improvement YoY.

Order book stands tall at ~INR71bn, of which ~INR50bn is defence (*ex-Pinaka order worth INR60bn*). SOIL signed an MoU with the Government of Maharashtra last month to invest ~INR127bn over the next ten years to establish and anchor major defence projects (*UAVs, drones, military transport aircraft, etc*). *SOIL won the much-awaited Pinaka order yesterday worth ~INR60bn, with delivery slated over seven–eight years in our view.* We believe this is a breakthrough opening more gateways for future repeated orders from both domestic and exports markets (*highest-ever single order in SOIL's history*).

*Management highlighted that they shall fall short of FY25 volume guidance (15% earlier to now 10–12%) and revenue (25–30% earlier to now 20–22%).* However, we do not see much impact on FY26E/27E EPS since the defence and exports pieces are growing strong. *Click here* to read conference call KTAs.

## Higher visibility, growing pipeline and valuation prompt upgrade

We expect higher bunched-up defence orders over FY26E/27E given GoI's continued focus on modernisation and indigenisation. **Upgrade to 'BUY'** as we factor in a 24%+ revenue CAGR (FY24–27E) and 25.5% OPM by FY27E set off by exports and defence mix inching up to 75–80% (from 60–65%) in two–three years. We are cutting FY25E/26E/27E EPS by (10%)/(12%)/(5%) and changing the valuation methodology, valuing SOIL at 50x blended PE on FY27E EPS, which yields a revised TP of INR11,000.

## Financials

| Year to March | Q3FY25 | Q3FY24 | % Change | Q2FY25 | % Change |
|---|---|---|---|---|---|
| Net Revenue | 19,731 | 14,291 | 38.1 | 17,158 | 15.0 |
| EBITDA | 5,265 | 3,562 | 47.8 | 4,448 | 18.4 |
| Adjusted Profit | 3,139 | 2,047 | 53.4 | 2,808 | 11.8 |
| Diluted EPS (INR) | 34.7 | 22.6 | 53.4 | 31.0 | 11.8 |

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# Financial Statements

### Income Statement (INR mn)

| Year to March | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|
| Total operating income | 60,695 | 73,894 | 92,468 | 1,15,452 |
| Gross profit | 28,734 | 36,147 | 43,585 | 53,578 |
| Employee costs | 4,335 | 5,852 | 6,905 | 8,148 |
| Other expenses | 10,707 | 8,054 | 13,131 | 15,932 |
| EBITDA | 13,692 | 19,433 | 23,549 | 29,498 |
| Depreciation | 1,434 | 1,939 | 2,300 | 2,587 |
| Less: Interest expense | 1,094 | 994 | 994 | 904 |
| Add: Other income | 445 | 287 | 302 | 962 |
| Profit before tax | 11,609 | 16,787 | 20,557 | 26,968 |
| Prov for tax | 2,861 | 4,397 | 4,923 | 6,307 |
| Less: Other adj | 0 | 0 | 0 | 0 |
| Reported profit | 8,357 | 11,640 | 14,884 | 19,911 |
| Less: Excp.item (net) | 0 | 0 | 0 | 0 |
| Adjusted profit | 8,357 | 11,640 | 14,884 | 19,911 |
| Diluted shares o/s | 91 | 91 | 91 | 91 |
| Adjusted diluted EPS | 92.3 | 128.6 | 164.5 | 220.0 |
| DPS (INR) | 7.5 | 7.5 | 7.5 | 7.5 |
| Tax rate (%) | 24.6 | 26.2 | 23.9 | 23.4 |

### Balance Sheet (INR mn)

| Year to March | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|
| Share capital | 181 | 181 | 181 | 181 |
| Reserves | 32,875 | 45,163 | 59,032 | 77,051 |
| Shareholders funds | 33,056 | 45,344 | 59,213 | 77,232 |
| Minority interest | 1,217 | 1,467 | 1,717 | 1,967 |
| Borrowings | 11,050 | 11,050 | 10,050 | 10,050 |
| Trade payables | 5,527 | 6,073 | 7,904 | 10,040 |
| Other liabs & prov | 4,887 | 5,338 | 5,835 | 6,380 |
| Total liabilities | 55,770 | 69,310 | 84,759 | 1,05,714 |
| Net block | 19,191 | 29,253 | 33,953 | 38,366 |
| Intangible assets | 1,086 | 1,086 | 1,086 | 1,086 |
| Capital WIP | 4,898 | 4,898 | 4,898 | 4,898 |
| Total fixed assets | 25,175 | 35,236 | 39,936 | 44,349 |
| Non current inv | 1,565 | 1,565 | 1,565 | 1,565 |
| Cash/cash equivalent | 5,007 | 5,158 | 14,161 | 24,982 |
| Sundry debtors | 8,449 | 10,122 | 10,134 | 12,652 |
| Loans & advances | 358 | 358 | 358 | 358 |
| Other assets | 15,217 | 16,872 | 18,605 | 21,808 |
| Total assets | 55,770 | 69,310 | 84,759 | 1,05,714 |

### Important Ratios (%)

| Year to March | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|
| Explosive volume (%) | 19.7 | 12.0 | 15.0 | 15.0 |
| Explosive realz. (INR MT) | 47,700.0 | 47,199.0 | 49,559.0 | 52,037.0 |
| COGS as % sales | 55.0 | 50.0 | 52.0 | 52.9 |
| EBITDA margin (%) | 22.6 | 26.3 | 25.5 | 25.5 |
| Net profit margin (%) | 13.8 | 15.8 | 16.1 | 17.2 |
| Revenue growth (% YoY) | (12.3) | 21.7 | 25.1 | 24.9 |
| EBITDA growth (% YoY) | 6.2 | 41.9 | 21.2 | 25.3 |
| Adj. profit growth (%) | 10.3 | 39.3 | 27.9 | 33.8 |

### Free Cash Flow (INR mn)

| Year to March | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|
| Reported profit | 8,357 | 11,640 | 14,884 | 19,911 |
| Add: Depreciation | 1,434 | 1,939 | 2,300 | 2,587 |
| Interest (net of tax) | 733 | 666 | 666 | 606 |
| Others | 10,804 | (3,062) | 1,083 | (7,727) |
| Less: Changes in WC | 2,745 | (2,327) | 586 | (3,036) |
| Operating cash flow | 18,582 | 13,509 | 18,347 | 18,414 |
| Less: Capex | (6,770) | (12,000) | (7,000) | (7,000) |
| Free cash flow | 11,812 | 1,509 | 11,347 | 11,414 |

### Assumptions (%)

| Year to March | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|
| GDP (YoY %) | 5.8 | 6.3 | 6.3 | 6.3 |
| Repo rate (%) | 5.5 | 5.0 | 5.0 | 5.0 |
| USD/INR (average) | 78.0 | 77.0 | 77.0 | 77.0 |
| Overhead as % sales | 7.5 | 7.1 | 7.0 | 7.0 |
| Debtor days | 50.0 | 46.0 | 40.0 | 36.0 |
| Inventory days | 111.0 | 90.0 | 82.0 | 79.0 |
| Payable days | 59.0 | 56.0 | 52.0 | 53.0 |

### Key Ratios

| Year to March | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|
| RoE (%) | 28.3 | 29.7 | 28.5 | 29.2 |
| RoCE (%) | 30.1 | 34.5 | 33.5 | 34.8 |
| Inventory days | 111 | 90 | 82 | 79 |
| Receivable days | 50 | 46 | 40 | 36 |
| Payable days | 59 | 56 | 52 | 53 |
| Working cap (% sales) | 23.0 | 22.1 | 17.0 | 16.3 |
| Gross debt/equity (x) | 0.3 | 0.2 | 0.2 | 0.1 |
| Net debt/equity (x) | 0.2 | 0.1 | (0.1) | (0.2) |
| Interest coverage (x) | 11.2 | 17.6 | 21.4 | 29.8 |

### Valuation Metrics

| Year to March | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|
| Diluted P/E (x) | 98.7 | 70.9 | 55.4 | 41.4 |
| Price/BV (x) | 25.0 | 18.2 | 13.9 | 10.7 |
| EV/EBITDA (x) | 59.3 | 41.7 | 34.0 | 26.8 |
| Dividend yield (%) | 0.1 | 0.1 | 0.1 | 0.1 |

*Source: Company and Nuvama estimates*

### Valuation Drivers

| Year to March | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|
| EPS growth (%) | 10.3 | 39.3 | 27.9 | 33.8 |
| RoE (%) | 28.3 | 29.7 | 28.5 | 29.2 |
| EBITDA growth (%) | 6.2 | 41.9 | 21.2 | 25.3 |
| Payout ratio (%) | 8.1 | 5.8 | 4.6 | 3.4 |

# Q3FY25 conference call highlights

## Opening remarks

- Q3 performance reflects our internal strategic initiatives. The defence business's performance has picked up, wherein growth is 570% YoY at INR4.09bn. Domestic demand in mining was subdued due to monsoon and elections. Total order book stands at INR70bn+.

- Signed an MoU with the Government of Maharashtra to invest INR127bn over the next ten years to establish and anchor major defence projects. The nod from CCS for a procurement deal with Solar Industries to supply PINAKA enhanced rockets and area-denial rockets to the armed forces will drive revenue growth, open new possibilities and further establish Solar Industries' prominence in the Indian defence sector.

## Questions & answers

**Q. Explosives and ammunition market.**

A. Orders from Indian defence market – PINAKA will be the biggest order in the history of Solar Industries. We will be able to sign this any moment now. INR49.bn defence backlog currently—PINAKA will be 60%, i.e. INR60bn. Already supplying explosives, propellants, rockets, etc and participating in many development programs. Bhargavastra (micro missile system)–falls under loitering ammunition. We were the first company in India to develop this product on its own. We are also building anti-drone systems – both hard-kill and soft-kill. In two years, will start commercialisation.

**Q. INR127bn project.**

A. Recent MoU is in line with our strategic initiative having a strong defence portfolio in our products basket. Tentative plan that we will be able to execute in ten years, but will target to do in seven–eight years. Current yearly PAT is INR12.5–13bn – going forward, it'll keep on increasing given current investments will materialise.

**Q. Volumes. Pipeline. Defence orders execution rate.**

A. Volume in H1FY25 – 12% YoY growth in explosives. Subdued demand in Q3, slower mining activity was there. Going ahead – we are seeing demand picking up, which should help in better volumes. Every order has different timelines – for PINAKA it will be 8–10 years of delivery. For the rest of defence, it shall be 3–4 years.

**Q. 30% revenue guidance for FY25. Margins sustainability.**

A. 9MFY25 saw around 21%. May fall slightly short of 30% YoY revenue growth guidance for FY25. EBITDA/PAT margin – we are doing better than our guidance. We see these margins can be maintained given international and defence pickup.

**Q. Margin guidance.**

A. Can't commit whether its sustainable or will move further. We should be able to do in similar range depending on how business dynamics unfolds.

**Q. Volume guidance for FY25.**

A. 15% volume guidance at start of the year, now we see 8–10% revised volume guidance for FY25.

**Q. PINAKA. Defence revenue guidance.**

A. We have some export orders of PINAKA rockets, which we have started supplying. CCS clearance already done on domestic side. These kind of orders do take time to come, 1–1.5 years. INR49.71bn defence backlog as of now. INR15bn defence revenue guidance for FY25 – we have crossed INR9bn already, will do INR14-15bn by end of this year.

**Q. Volume growth guidance for FY26.**

A. We should be able to do 15%+ volume growth in explosives next year.

**Q. Revenue growth guidance for next 3–5 years.**

A. 15% volume growth should not be an issue barring 1-2 quarters here and there. Defence opening up for us in a big manner. We will definitely do 20%+ revenue growth going ahead and even if we enhance efficiencies, realizations etc. – it would be above that but 20% should not be a problem at all.

**Q. New defence products. Spin-off of our defence business on the cards?**

A. We have been adding various new defence products. EEL – main business shall continue.

**Q. Execution rate of backlog and PINAKA.**

A. INR21.51bn non-defence backlog – for next 2 years. Defence – international is 3-4 years. PINAKA- 7-8 years. Capex of INR12bn in FY25 for group as whole.

**Q. Defence backlog.**

A. Current defence backlog has orders largely for the international market.

### Exhibit 1: Financial snapshot (INR mn)

| Financial snapshot - (Consolidated) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Year to March** | **Q3FY25** | **Q3FY24** | **% YoY** | **Q2FY25** | **% QoQ** | **FY24A** | **FY25E** | **FY26E** |
| Revenues | 19,731 | 14,291 | 38.1 | 17,158 | 15.0 | 60,695 | 73,894 | 92,468 |
| Raw material | 10,287 | 7,516 | 36.9 | 8,430 | 22.0 | 31,962 | 37,747 | 48,884 |
| Staff costs | 1,507 | 1,115 | 35.2 | 1,447 | 4.1 | 4,335 | 5,852 | 6,905 |
| Other expenditure | 2,672 | 2,098 | 27.4 | 2,834 | (5.7) | 10,707 | 10,862 | 13,131 |
| Total expenditure | 14,465 | 10,729 | 34.8 | 12,711 | 13.8 | 47,003 | 54,461 | 68,919 |
| Check | 0 | 0 | | 0 | | | | |
| EBITDA | 5,265 | 3,562 | 47.8 | 4,448 | 18.4 | 13,692 | 19,433 | 23,549 |
| Depreciation | 474 | 386 | 22.8 | 436 | 8.7 | 1,434 | 1,939 | 2,300 |
| EBIT | 4,791 | 3,176 | 50.8 | 4,012 | | 12,258 | 17,494 | 21,250 |
| Less: Interest Expense | 305 | 283 | 7.8 | 297 | 2.6 | 1,094 | 994 | 994 |
| Add: Other income | 95 | 109 | (12.6) | 305 | (68.7) | 445 | 287 | 302 |
| Profit Before Tax | 4,582 | 3,003 | 52.6 | 4,019 | 14.0 | 11,609 | 16,787 | 20,557 |
| Less: Provision for Tax | 1,216 | 770 | 57.9 | 1,032 | | 2,861 | 4,397 | 4,923 |
| Reported Profit | 3,149 | 2,033 | 54.9 | 2,859 | 10.1 | 8,360 | 11,640 | 14,884 |
| Adjusted Profit | 3,149 | 2,033 | 54.9 | 2,859 | 10.1 | 8,360 | 11,640 | 14,884 |
| Adjusted Diluted EPS | 34.8 | 22.3 | 55.7 | 31.6 | 10.1 | 92.4 | 128.6 | 164.5 |
| **As % of net revenues** | | | | | | | | |
| Raw material | 52.1 | 52.6 | | 49.1 | | 52.7 | 51.1 | 52.9 |
| Staff expenses | 7.6 | 7.8 | | 8.4 | | 7.1 | 7.9 | 7.5 |
| Other expenses | 13.5 | 14.7 | | 16.5 | | 17.6 | 14.7 | 14.2 |
| EBITDA | 26.7 | 24.9 | | 25.9 | | 22.6 | 26.3 | 25.5 |
| Net profit | 16.0 | 14.2 | | 16.7 | | 13.8 | 15.8 | 16.1 |

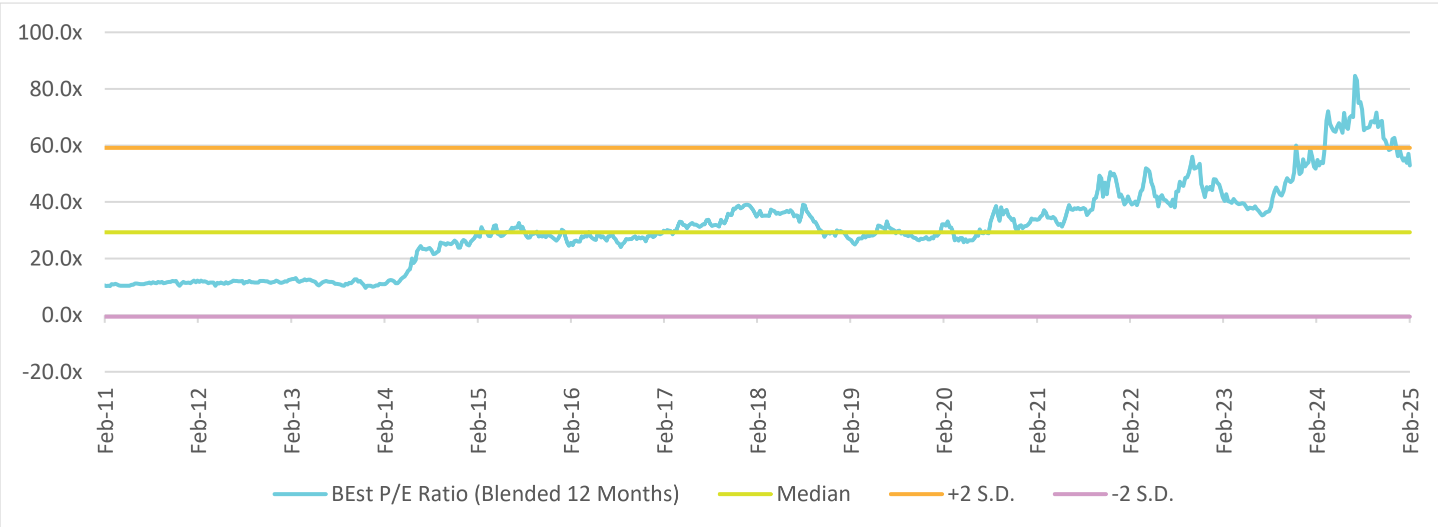
*Source: Company, Nuvama Research*

**Exhibit 2: Segmental information**

| Revenue by customer | Q3FY25 | Q3FY24 | % change | Q2FY25 | % change |
|---|---|---|---|---|---|
| Coal India | 2,590 | 2,340 | *10.7* | 1,690 | *53.3* |
| Institutional | 2,780 | 2,450 | *13.5* | 2,240 | *24.1* |
| Housing & Infra | 2,570 | 2,510 | *2.4* | 1,910 | *34.6* |
| Exports & overseas | 7,580 | 6,240 | *21.5* | 7,990 | *(5.1)* |
| Defence | 4,090 | 620 | *559.7* | 3,220 | *27.0* |
| Others | 120 | 130 | *(7.7)* | 110 | *9.1* |
| **Total** | **19,730** | **14,290** | ***38.1*** | **17,160** | ***15.0*** |
| | | | | | |
| **Revenue by customer (% mix)** | **Q3FY25** | **Q3FY24** | ***% change*** | **Q2FY25** | ***% change*** |
| Coal India | 13.1 | 16.4 | *(3.2)* | 9.8 | *3.3* |
| Institutional | 14.1 | 17.1 | *(3.1)* | 13.1 | *1.0* |
| Housing & Infra | 13.0 | 17.6 | *(4.5)* | 11.1 | *1.9* |
| Exports & overseas | 38.4 | 43.7 | *(5.2)* | 46.6 | *(8.1)* |
| Defence | 20.7 | 4.3 | *16.4* | 18.8 | *2.0* |
| Others | 0.6 | 0.9 | *(0.3)* | 0.6 | *(0.0)* |
| **Total** | **100** | **100** | | **100** | |

*Source: Company, Nuvama Research*

**Exhibit 3: One-year forward consensus PE**




*Source: Bloomberg, Nuvama Research*

## Company Description

Founded in 1984, SIIL (erstwhile Solar Explosives) is the largest manufacturer of industrial explosives and explosive initiating systems in India. With a licensed explosives capacity of over 250,000 MT/annum, the company has ~27% market share in India. It is the largest supplier of explosives to Coal India and exports to over 20 countries in Middle-East, Africa and South East Asia, with ~65% market share in exports from India. SIIL has manufacturing facilities spread across 16 locations and eight states in India. Economic Explosives, its 100% subsidiary, manufactures detonators. Key top management personnel include Mr. Satyanarayan Nuwal (Chairman), Mr. Kundan Singh Talesra (Executive Director), Mr. Roomie Dara Vakil (Executive Director), Mr. Manish Nuwal (Executive Director).

## Investment Theme

Solar Industries is a market leader in the high entry barrier Indian industrial explosives market. India, a potential market for industrial explosives and its accessories, has witnessed a radical shift from complete import dependence in the past decades to self-sufficiency with an exportable surplus presently and SOIL on back of its excellent project execution track record and a strong brand name in industrial explosives. SOIL has also successfully forayed into various offshore markets including Nigeria, Zambia, Turkey and South Africa and have already ventured in to Australia and Ghana. These global markets offer strong growth potential for the company with revenue contribution of ~25% from offshore regions. SOIL in past three-four years has aggressively invested in defence (approx INR3.5bn) in creating capacities and taking various approvals. Today SOIL can offer entire basket of products including bombs, warheads and has integrated up to providing rockets and missiles.

## Key Risks

- Slowdown in mining and infrastructure sectors Regulatory risk - Explosives industry is heavily regulated by the government. Any adverse change in these regulations may impact the company’s operations.
- Volatility of raw material prices may impact the company’s profitability.
- High dependence on limited number of buyers - Over the years, while SIIL has been widening its customer base, even currently the top three customers contribute over 30% to the company’s revenue.
- Any delay in overseas expansion or in defence venture.

# Additional Data

## Management

| | |
|---|---|
| CEO | Manish Nuwal |
| CFO | Shalinee Mandhana |
| Chairman | Satyanarayan Nuwal |
| ED | Suresh Menon |
| Auditor | S R B C & Co. LLP |

## Holdings – Top 10*

| | % Holding | | % Holding |
|---|---|---|---|
| SBI Fund Mgmt | 4.39 | Vanguard Group | 1.09 |
| Kotak Asset Mgm | 3.14 | BlackRock Inc | 0.98 |
| FMR LLC | 1.98 | Axis AMC | 0.67 |
| HDFC AMC | 1.50 | Motilal Oswal A | 0.40 |
| Fidelity Emergi | 1.13 | PGIM AMC | 0.34 |

**Latest public data*

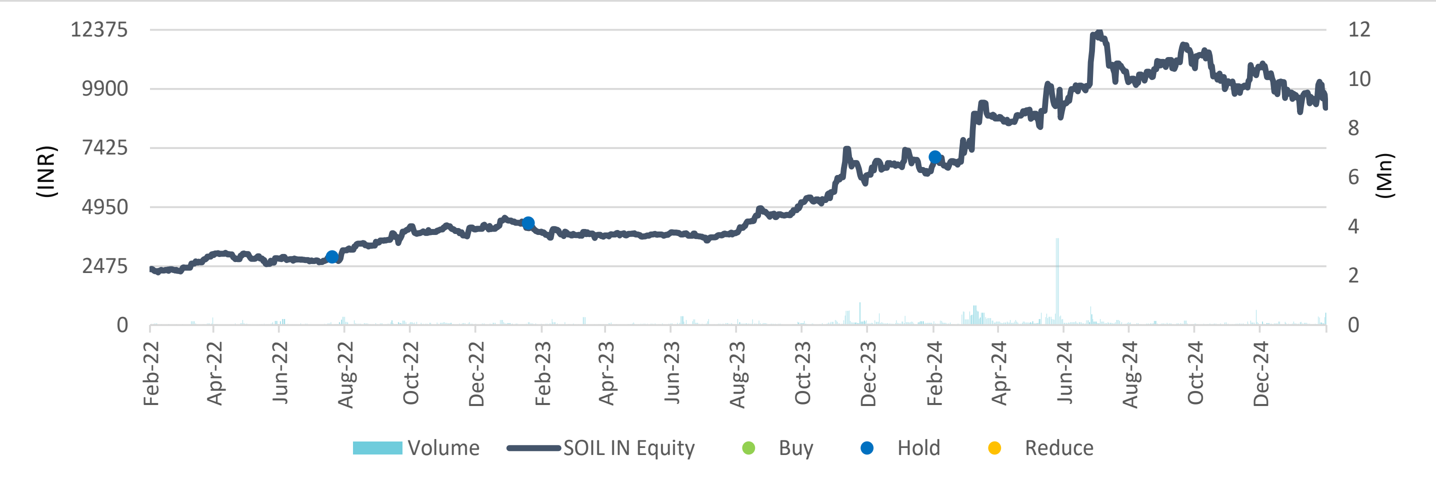
## Recent Company Research

| Date | Title | Price | Reco |
|---|---|---|---|
| 14-Nov-24 | Margins sustain; *Result Update* | 9688 | Hold |
| 07-Aug-24 | Margins light up, lift earnings growth; *Result Update* | 10218 | Hold |
| 17-May-24 | Defence pickup drives optimism; *Result Update* | 8900 | Hold |

## Recent Sector Research

| Date | Name of Co./Sector | Title |
|---|---|---|
| 30-Jan-25 | Bharat Electronics | Befitting optimism on a growing giant; *Result Update* |
| 23-Dec-24 | Defence | Geopolitical chessboard calls for Defenc; *Sector Update* |
| 05-Dec-24 | Zen Technologies | Gearing up for the right markets; *Nuvama Flash* |

## Rating and Daily Volume Interpretation




*Source: Bloomberg, Nuvama research*

## Rating Rationale & Distribution: Nuvama Research

| Rating | Expected absolute returns over 12 months | Rating Distribution |
|---|---|---|
| Buy | 15% | 225 |
| Hold | <15% and >-5% | 64 |
| Reduce | <-5% | 28 |

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