December 18, 2020

Solar Industries India Limited: [ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	100.00	[ICRA]A1+; Assigned

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating factors in the Solar Group's (refers to standalone entity along with subsidiaries and step-subsidiaries) established presence spanning over two decades in the industrial explosives industry, and its leading position in the domestic explosives segment with a dominant share of ~25% (source: company) in the domestic explosives industry with presence in 51+ countries. The rating considers the reputed customer base comprising large and reputed players in the mining and infrastructure industry, who have been extending repeat orders. ICRA notes its strong financial profile characterised by healthy profitability, comfortable capitalisation and coverage indicators. The Group has clocked an operating income (OI) of Rs. 1,078.4 crore in H1 FY2021, with unexecuted orders worth ~Rs. 1,745.0 crore from the key customers as on October 31, 2020. The Group is expected to benefit from the Atmanirbhar Bharat Abhiyan scheme of the Government of India (GoI) which is aimed at curbing the imports and increasing demand for indigenous defence products.

The rating, however, remains constrained by the vulnerability of SIIL's margins to any fluctuations in key raw material prices i.e. ammonium nitrate. However, the presence of price escalation clause in the tender-based business with key clients provides some comfort. The company faces high segment concentration risk with a considerable portion of its revenues in FY2020 derived from the mining sector. Any operational or regulatory impact on the mining sector could therefore, impact SIIL's revenue generation. However, efforts are being taken by the Group to increase its presence in other sectors, especially the defence sector, which is expected to provide comfort against the sectoral concentration going forward. Given the sizeable revenue contribution from the exports and overseas segment in its revenue base, SIIL's profitability remains vulnerable to volatility in foreign currency exchange rates. However, hedging through foreign currency forward contracts provides some cushion to company's profitability metrics against extreme fluctuations in the foreign currency exchange rates. ICRA also notes the highly regulated nature of the explosives manufacturing industry. The company's operations therefore remain vulnerable to any changes in the regulatory framework impacting the industry.

Key rating drivers and their description

Credit strengths

Extensive experience in manufacturing industrial explosives- SIIL is engaged in the manufacturing of industrial explosives since 1996 and has established its presence within the industry over the last two decades. The group presently has its manufacturing facilities spread across 29 locations in India as well as 5 locations overseas.

Largest manufacturer of industrial explosives industry in India with established global presence - The explosives manufactured by the Solar Group finds application in the the mining, defence, infrastructure, construction industries and the company currently hold a market share of ~25% in the Indian explosives market. It is the largest exporter of explosives from India (source: company). SIIL has an extensive geographical reach and markets its products across 51+ countries in the world. Exports and overseas revenues contributed ~35% of the Group's total revenues in FY2020.

Opening of mining sector for private players and GoI's Atmanirbhar Bharat Abhiyan expected to curb imports and increase demand for indigenous defence products - The renewed focus of the GoI on commercial coal mining would allow domestic mining firms to help ramp up production from India's huge reserves, which will increase the domestic production of coal. In terms of the defence sector, with India largely importing its military requirements, the Government has been taking several initiatives under the Atmanirbhar Bharat campaign to make the country self-reliant. The GoI has introduced several policies and procedural changes in the defence production sector for encouraging private investment, R&D, and indigenisation, which includes allowing 100% foreign direct investment (FDI) in the defence sector. The initiatives in the mining and the defence sector, along with the consistent ramp up of operations (backed by regular capex) augurs well for the Solar Group, as reflected by the Group's healthy order book of Rs. 1,745.0 crore (from mining and defence) as on October 31, 2020.

Reputed clientele comprising large players in mining industry providing repeat orders - The company has developed established ties with its key customers, comprising reputed players such as Coal India Limited and The Singareni Collieries Company Limited. Such established relations with the key clientele provide SIIL with revenue visibility through repeat orders. Presence of reputed customers in its clientele also helps SIIL in acquiring new clients from diversified sectors.

Healthy profitability, comfortable capitalisation and coverage metrics - SIIL's financial profile is characterised by healthy profitability over the years along with comfortable capitalisation and coverage metrics. The consolidated operating profitability has remained above 20% over the period under consideration, highlighting healthy profitability of the company. SIIL's gearing, in line with its group policy, continued to remain at 0.5 times as on March 31, 2020 asserting comfortable capitalisation profile. With an interest coverage and TD/OPBDITA of 8.2 times and 1.6 times respectively in FY2020 (consolidated), SIIL continues to exhibit comfortable leverage and coverage indicators.

Credit challenges

Margins remain vulnerable to any fluctuations in the prices of the key raw material – Ammonium Nitrate; however, presence of price variation clause in tender based business mitigates the risk to an extent – Ammonium Nitrate is the key raw material required in manufacturing explosives. SIIL's margins therefore, remain vulnerable to any fluctuations in the prices of the key raw material. However, the company has included price variation clause in its tender based business with key clientele, which mitigates the said risk to an extent.

High segment concentration risk with ~30% of the revenues in FY2020 derived from the mining sector – SIIL exhibits high segment concentration with ~30% of the revenues in FY2020 derived from the mining sector. Mining entities such as Coal India Limited and The Singareni Collieries Company Limited dominate the revenue profile of SIIL, highlighting the high degree of company's business dependence on the mining sector. Any operational or regulatory impact on the mining sector could therefore impact SIIL's revenue generation. The company's efforts to increase its presence in other sectors, especially defence sector, is expected to provide some comfort against the segment concentration risk going forward.

Profitability susceptible to volatility in foreign currency exchange rates – Exports and overseas segment contributes sizeably to SIIL's revenue profile (~35% revenue contribution in FY2020). SIIL's profitability therefore, remains susceptible to volatility in foreign currency exchange rates. However, the hedging practices observed by the company by undertaking foreign currency forward contracts provide some cushion to its profitability against volatility in foreign currency exchange rates.

Exposure to regulatory risks – SIIL operates in a highly regulated explosives manufacturing industry with high entry barriers. Its operations therefore, remain vulnerable to any changes in the regulatory framework impacting the industry. The nature of the products and their being prone to abuse under the existing atmosphere of violence not only in India, but globally, makes the industry highly sensitive and vulnerable.

Liquidity position: Strong

The company's liquidity position remains **strong** on the back of healthy cash and liquid investments of Rs. 127.7 crore as on September 30, 2020 and undrawn working capital limits of Rs. 294.8 crore as on October 2020. The group has estimated repayments of ~Rs. 102.0 crore in FY2021 and ~Rs. 135.2 crore in FY2022. It also has planned capital expenditure of Rs. 200-225 crore every year over the next three years, which will be partly funded through debt. However, its liquidity position is expected to remain strong on the back of healthy accruals generation and moderate working capital requirements.

Rating sensitivities

Positive Triggers: Not applicable

Negative Triggers: The rating may be downgraded if there is any significant decline in revenues or profitability or if the company undertakes any higher-than-anticipated debt-funded capex. Moreover, any adverse regulatory measure(s) that weaken(s) the credit profile, may also push the rating downwards.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SIIL. As on March 31, 2020, the company had 6 subsidiaries, 17 step-down subsidiaries, 2 associates and 1 entity with joint control/significant influence, which are enlisted in Annexure-2.

About the company

SIIL is the flagship company of the Solar Group, which is promoted and headed by Mr. Satyanarayan Nuwal. The company initially commenced trading of explosives in 1983 and ventured into explosive manufacturing in 1996. SIIL along with its subsidiaries manufactures bulk explosives, packaged explosives and initiating systems, which find applications in the mining, infrastructure and construction industries. The Group forayed into the defence segment in 2010 and diversified into manufacturing of propellants for missiles and rockets, warheads and warhead explosives. Currently, there are 29 manufacturing plants across nine states in India in addition to five overseas units in Zambia, Ghana, Nigeria, Turkey and South Africa. In 2019, SIIL formed an association with Indian Space Research Organisation (ISRO). The company has also established Centre of Excellence for Life Assessment for Explosives and Ammunition. The head office of the Group is located in Nagpur (Maharashtra).

The group reported PAT of Rs. 278.7 crore on an operating income of Rs. 2,237.3 crore in FY2020, as compared to PAT of Rs. 276.8 crore on an operating income of Rs. 2,461.6 crore in the previous fiscal, i.e. FY2019.

Key financial indicators

	Standalone			Consolidated		
	FY2019 Audited	FY2020 Audited	H1FY2021 Unaudited	FY2019 Audited	FY2020 Audited	H1FY2021 Unaudited
Operating Income (Rs. crore)	1663.2	1511.5	649.0	2,461.6	2,237.3	1,078.4
PAT (Rs. crore)	191.5	213.4	78.8	276.8	278.7	111.6
OPBDITA/ OI (%)	19.5%	17.8%	17.7%	21.5%	20.2%	20.2%
PAT/OI (%)	11.5%	14.1%	12.1%	11.2%	12.5%	10.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.4	0.4	0.8	0.7	0.8
Total Debt/ OPBDITA (times)	0.5	0.5	0.7	1.1	1.6	1.6
Interest Coverage (times)	27.2	22.1	34.5	10.6	8.2	9.1

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax
Source: Consolidated financial statements of SIIL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					Dec-18-2020	NA	Aug-14-2018	Jul-21-2017
1	Commercial Paper Programme	Short Term	-	-	[ICRA]A1+	NA	[ICRA]A1+; Withdrawn	[ICRA]A1+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA*	Commercial Paper Programme	NA	NA	NA	100.00	[ICRA]A1+

*Source: Solar Industries India Limited; *: Commercial Paper Programme not yet placed*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Subsidiaries		
Economic Explosives Limited	100.00%	Full Consolidation
Blastec India Private Limited	100.00%	Full Consolidation
Emul Tek Private Limited	100.00%	Full Consolidation
Solar Defence Limited	100.00%	Full Consolidation
Solar Defence Systems Limited	100.00%	Full Consolidation
Solar Overseas Mauritius Limited	100.00%	Full Consolidation
Solar Mining Services Pty Limited, South Africa	86.74%	Full Consolidation
Nigachem Nigeria Limited	55.00%	Full Consolidation
Solar Overseas Netherlands B.V.	100.00%	Full Consolidation
Solar Explochem Zambia Limited	65.00%	Full Consolidation
Solar Patlayici Maddeler Sanayi Ve Ticaret Anonim Sirketi	100.00%	Full Consolidation
P.T. Solar Mining Services	100.00%	Full Consolidation
PATSAN Patlayici Maddeler Sanayi Ve Ticaret Anonim Sirketi[1]	53.00%	Full Consolidation
Solar Nitro Ghana Limited	90.00%	Full Consolidation
Solar Madencilik Hizmetleri A.S	100.00%	Full Consolidation
Solar Overseas Netherlands Cooperative U.A	99.99%	Full Consolidation
Solar Overseas Singapore Pte Ltd	100.00%	Full Consolidation
Solar Industries Africa Limited	100.00%	Full Consolidation
Solar Nitro Zimbabwe (Private) Limited	100.00%	Full Consolidation
Solar Nitro Chemicals Limited	65.00%	Full Consolidation
Solar Mining Services Pty Ltd, Australia	76.00%	Full Consolidation
Solar Mining Services Cote d'Ivoire Limited SARL	100.00%	Full Consolidation
Laghe Venture Company Limited	55.00%	Full Consolidation
Associates		
SMS Bhatgaon Mines Extension Private Limited[2]	49.00%	Full Consolidation
Solar Bhatgaon Extension Mines Private Limited[2]	49.00%	Full Consolidation
Entities with joint control or significant influence over the entity		
ASTRA Resources Pty Limited	49.00%	Full Consolidation

Note:

[1] The entity is under liquidation

[2] The entity is under process of striking off

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About ICRA Limited:

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