November 29, 2021

Solar Industries India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	100.0	100.0	[ICRA]A1+; Reaffirmed
Total	**100.00**	**100.0**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the rating takes into account the Solar Group's (refers to Solar Industries India Ltd (SIIL) along with subsidiaries and step-down subsidiaries) sound operational performance in FY21 and H1, FY22, with an operating income of Rs 1613 crore, in H1, FY22; a growth of 49% over the same period prior year. The robust growth has been fuelled by volume growth as well as increase in prices. The company's sizeable order book of Rs 2842 crore, as on September 30, 2021 is expected to result in continued growth momentum and price escalation clause in its key contracts is expected to result in healthy margins, over the near to medium term.

The rating continues to factor in the Solar Group's 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 ~24% (source: company), along with presence in over 55 countries. The rating considers the company's customer base comprising large and reputed players in the mining and infrastructure industry, who have been extending repeat orders. ICRA also notes the company's strong financial profile characterised by healthy profitability, comfortable capitalisation and coverage indicators. The Atmanirbhar Bharat Abhiyan of the Government of India (GoI) which is aimed at curbing imports and increasing demand for indigenous defence products, also presents increased growth opportunities for the company. The rating, however, remains constrained by the vulnerability of SIIL's margins to any fluctuations in the prices of its key raw material i.e. Ammonium Nitrate (AN). 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 FY2021 derived from the mining sector. Any operational or regulatory impact on the mining sector could therefore, impact SIIL's revenue generation. However, ICRA has also taken note of the efforts being taken by the Group to increase its presence in other sectors, especially the defence sector, which is expected to result in increased customer and product diversity. Given the sizeable revenue contribution from 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 the 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 and initiating systems: The Solar Group has been operational in the field of explosives manufacturing for over 25 years. The extensive experience of the promoters coupled with the Group's well-established track record has helped in expansion of business in domestic as well as overseas markets over the years. The company initially commenced trading of explosives in 1983 and had ventured into explosives manufacturing in 1996. SIIL's manufacturing unit in Nagpur is recognised as the world's largest single location cartridge explosives manufacturing plant. Explosives segment accounts for around 60%-70% of total revenues of SIIL on a consolidated basis, followed by a 20% share of initiating systems.

Largest manufacturer of industrial explosives and initiating systems industry in India with established global presence: The explosives manufactured by the company find application in the mining, infrastructure and construction industries. SIIL is one of the largest exporter of explosives from India. It has an extensive geographical reach and markets its products to over 55 countries. Exports and overseas sales contributed to 42% of the company's total revenues in FY2021.

CIL and its subsidiaries are SIIL's key customers, contributing to ~17%-20% of its revenues during the last four years. The company has been dealing with CIL since several years and has developed established ties with it. However, it has diversified its customer profile to include new customers, which has led to a reduction in revenue contribution from CIL. Its other major customers are the Ministry of Defence (Government of India), The Singareni Collieries Company Limited (SCCL), etc

Reputed clientele comprising large players in mining industry providing repeat orders: The company's total order book as on September 30, 2021 stood at Rs. 2842 crore; this comprises a new order from CIL of Rs 1471 crore. The order book also includes orders from SCCL for supply of explosives and initiating systems to be delivered over a period of 2 years. Apart from that, it has order for supply of defence products which also includes contract for multi-mode hand grenades to The Ministry of Defence, Government of India, to be delivered over a period of two years.

Profitability safeguarded to an extent with inclusion of price escalation clause with key clientele: SIIL's operating margin over the period under consideration has mainly remained in the range of 20-21%. The company has price escalation clause included in the business agreements with its key clientele such as CIL and SCCL, which safeguards its margins against the volatility in raw material prices (mainly AN) to an extent. The margins, however, remain exposed to demand from the end-user industries such as mining, infrastructure, defence, etc. Any substantial drop in the demand for explosives and other product offerings could exert pressure on the company's profitability to an extent.

Healthy profitability, comfortable capitalization 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 the 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, 2021. With an interest coverage and TD/OPBDITA of 12.2 times and 1.5 times respectively in FY2021, the Solar Group continues to exhibit comfortable leverage and coverage indicators.

Credit challenges

Vulnerability of profits to raw material price and forex fluctuations; SIIL's pricing and hedging policy mitigates the risk to an extent: The key raw material required in manufacturing explosives is ammonium nitrate (AN). The prices of the same are volatile. Since the raw material procurement is not entirely order backed, the company's margins remain vulnerable to any adverse fluctuations in commodity prices. SIIL, however, enters into contracts bearing price escalation clauses with its key customers, which mitigates the risk to an extent and allows it to pass on the price increase, albeit with a lag.

High segment concentration risk with considerable portion of revenues in FY2021 derived from the mining sector: SIIL exhibits high segment concentration risk with a considerable portion of its revenues in FY2021 derived from the mining sector. Entities such as Coal India Limited (CIL) and SCCL dominate its revenue profile, highlighting its high 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, are expected to provide some comfort against the segment concentration risk going forward.

Profitability susceptible to volatility in foreign currency exchange rates: SIIL remains exposed to volatility in foreign currency fluctuations, however SIIL uses natural hedging as a strategy and imports are hedged, which mitigates the forex risk to an extent.

Exposure to regulatory risks: The industrial explosives industry continues to be under the Government's licensing regime. The nature of the products and the same being prone to abuse, under the existing atmosphere of terrorism globally, render the industry highly sensitive and vulnerable. The Department of Explosives, Government of India, located at Nagpur, is the licensing authority designated to oversee the safety of the hazardous materials produced and marketed by the industry.

Liquidity position: Adequate

SIIL's liquidity position is **adequate**, supported by cash and bank balances (~Rs. 98.4 crore as on 30th September 2021), undrawn working capital lines (Rs. 456 crore). The group has estimated repayments of about Rs. 164 crore in FY2022. It also has planned capital expenditure of about Rs.315 crore in FY22 and around Rs 250-300 crore annually, over the next two years, which will be partly funded through debt. The company's liquidity position is expected to remain adequate on the back of healthy accruals generation and moderate working capital requirements.

Rating sensitivities

Positive factors - Not applicable

Negative factors–The rating may be downgraded if there is a significant decline in revenues or profitability, or if the company undertakes higher-than-anticipated debt-funded capex. Net Debt/OPBITDA increasing above 1.5x, or any adverse regulatory measure(s) that weaken(s) the credit profile, could also result in pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SIIL; for FY21 and H2FY22, the company had six subsidiaries, 17 step-down subsidiaries, two associates and one entity with joint control/significant influence, the details of which are provided 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. 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).

Key financial indicators Consolidated

SIIL (Consolidated)	FY2019(Audited)	H1-FY21 (Unaudited)	FY2020 (Audited)	H1-FY22 (Unaudited)	FY2021
Operating Income (Rs. crore)	2461.6	1078.3	2237.3	1612.8	2516.12
PAT (Rs. crore)	276.8	111.6	278.6	175.6	288.1
OPBDIT/OI (%)	21.5%	20.2%	20.2%	19%	22%
PAT/OI (%)	11.2%	10.3%	12.5%	10.9%	11.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.8	0.7	0.8	0.8
Total Debt/OPBDIT (times)	1.1	1.6	1.6	1.5	1.5
Interest Coverage (times)	10.6	9.1	8.2	12.2	12.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Key financial indicators Standalone

SIIL (Standalone)	FY2019(Audited)	FY2020 (Audited)	FY2021 (Audited)
Operating Income (Rs. crore)	1663.2	1511.5	1584.4
PAT (Rs. crore)	191.5	213.4	189.1
OPBDIT/OI (%)	19.5%	17.8%	18.3%
PAT/OI (%)	11.5%	14.1%	11.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.4	0.4
Total Debt/OPBDIT (times)	0.5	0.5	0.4
Interest Coverage (times)	27.2	22.1	44.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Nov 29, 2021	Feb 23,2021	Dec 18, 2020		Aug,14-2018
1	Commercial Paper Programme	Short Term	100.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	NA	[ICRA]A1+; Withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Commercial Paper Programme (Proposed)	NA	NA	NA	100.0	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	SIIL's Ownership	Consolidation Approach
Subsidiaries		
Economic Explosives Limited	100.00%	Full Consolidation
Blastec India Private Limited[1]	100.00%	Full Consolidation
EmulTek Private Limited	100.00%	Full Consolidation
Solar Defence Limited[2]	100.00%	Full Consolidation
Solar Defence Systems Limited[2]	100.00%	Full Consolidation
Solar Avionics Limited[2&4]	100.00%	Full Consolidation
Solar Overseas Mauritius Limited	100.00%	Full Consolidation
Solar Mining Services Pty Limited, South Africa	82.86%	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 PatlayiciMaddeler Sanayi VeTicaretAnonimSirketi	100.00%	Full Consolidation
P.T. Solar Mining Services[2]	100.00%	Full Consolidation
PATSAN PatlayiciMaddeler Sanayi VeTicaretAnonimSirketi[5]	53.00%	Full Consolidation
Solar Nitro Ghana Limited	90.00%	Full Consolidation
Solar MadencilikHizmetleriA. 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[2]	65.00%	Full Consolidation
Solar Mining Services Pty Ltd, Australia*	76.00%	Full Consolidation
Solar Mining Services Cote d'Ivoire Limited SARL[2]	100.00%	Full Consolidation
Laghe Venture Company Limited	55.00%	Full Consolidation
Solar Mining Services Burkina Faso SARL, Burkina Faso[6]	100.00%	Full Consolidation
Solar Mining Services, Albania[7]	100.00%	Full Consolidation
Associates		
SMS Bhatgaon Mines Extension Private Limited[3]	49.00%	Full Consolidation
Solar Bhatgaon Extension Mines Private Limited[3]	49.00%	Full Consolidation
Entities with joint control or significant influence over the entity		
ASTRA Resources Pty Limited	49.00%	Full Consolidation

Source: *SIIL annual report FY2021 and Quarterly results.*

Note 1 : Blastec (India) Private Limited merged into Emul Tek Private Limited w.e.f September 21, 2021.

Note 2: The entity has not commenced its business operations

Note 3: The entities have been struck off.

Note 4: The entity was incorporated on November 16, 2020

Note 5: The entity is under liquidation.

Note 6: The entity was incorporated on April 06, 2021.

Note 7: The entity was incorporated on April 22, 2021.

**Formerly known as Australian Explosives Technologies Group Pty Limited*

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