February 17, 2025(Revised)

Solar Industries India Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	150.00	250.00	[ICRA]A1+; reaffirmed and assigned for enhanced amount
Total	**150.00**	**250.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the rating takes into account the leadership position of SIIL in the industrial explosives industry, supported by a large manufacturing infrastructure with some units in proximity to mines, a backward-integrated facility in India as well as manufacturing units in select countries. In addition to a dominant market position in India, SIIL has developed a reasonable global footprint in recent years with supply to over 75 countries. Exports and overseas sales accounted for 40% of the Group's total revenues in FY2024 and 41% in H1 FY2025.

The rating considers a favourable medium-term demand outlook with increased demand from the end-users in the mining, infrastructure, housing and defence sectors. The Atmanirbhar Bharat initiative of the Government of India (GoI), which is aimed at curtailing import dependence and increasing the sourcing of indigenous defence products, also presents large growth opportunities for the company. The order book, indicating revenue visibility, is strong at ~Rs. 13,000 crore including the ~Rs. 6084 crore order received for manufacturing of rockets for the PINAKA Multiple Launcher Rocket System (MLRS). This comprises orders worth ~Rs. 2,151 crores from Coal India Limited (CIL) and Singareni Collieries Company Limited (SCCL) and defence orders of ~Rs. 11,000 crores. ICRA also notes that the company has recently signed a Memorandum of Understanding (MoU) with the Government of Maharashtra (GoM) for investment of Rs. 12,700 crores over the course of 10 year period for manufacturing drones and Unmanned Aerial Vehicles (UAVs), counter drone systems, energetic materials, New Generation Explosives etc. and new products such as Military transport Aircraft. Currently, the investments are in in planning stage and ICRA will assess the impact of the changes in the capital spending program if any as they are finalized.

SIIL has established relations with reputed clients in the mining and infrastructure industries which ensure repeat orders. Additionally, in the last few years, the company has been manufacturing and supplying products to the defence sector under a technology agreement with the Ministry of Defence, GoI, and has also developed products to meet the indigenisation requirements in defence supplies

The rating favourably factors in a healthy revenue growth of 20.5% in 9M FY2025 at Rs. 5,373.7 crore along with expectations of continued healthy growth in FY2025, driven by a strong defence order book and visibility on the offtake by CIL and SCCL. The company's operating profit margin (OPM) improved to around 24.4% in FY2024 and 26.4% in 9MFY2025, supported by moderating ammonium nitrate prices and the rising share of defence and export orders/international revenues which have higher margins. ICRA expects the margins to remain healthy in the range of 22-25%, going forward.

The rating, however, remains constrained by the vulnerability of SIIL's margins to any fluctuation in the prices of its key raw material i.e. AN. ICRA notes that the company has a price escalation clause in its agreements with its key clients that protects a material variability in margins to an extent even as the pass-through may be with a lag. The company's capital structure remained strong with a gearing of 0.3 times as on September 30, 2024, backed by a strong net worth. Notwithstanding the sizeable capex outgo and growing working capital requirements, the expanding operating profits and cash accruals would continue to support healthy debt coverage metrics and a favourable liquidity profile.

The company faces high sector concentration risk with a considerable portion of its revenues derived from the mining sector. Any operational or regulatory impact on the mining sector could, therefore, impact SIIL's revenue and cash generation. However, ICRA has also taken note of the efforts being taken by the Group to increase its presence in other sectors, especially defence, which is expected to result in increased customer and product diversity.

SIIL's profitability remains vulnerable to the volatility in foreign currency exchange rates, given the sizeable revenue contribution from exports and the overseas sector. However, a partial natural hedge from exports, USD billing in select markets and borrowings in local currency for overseas subsidiaries provide some cushion to the company's profitability metrics against the extreme fluctuations in foreign currency exchange rates. ICRA also notes the highly regulated nature of the explosive manufacturing industry with the need for licensing of various products. The company's operations, therefore, remain vulnerable to any changes in the regulatory framework.

The rating also takes note of the ongoing legal proceedings regarding the vacation of Mr. Kailash Chandra Nuwal's office of the executive director of the company. SIIL had filed an appeal with the Supreme Court against an impugned order passed by the National Company Law Appellate Tribunal (NCLAT) on January 5, 2022, and the matter is sub-judice. While the management doesn't anticipate any material impact on the business operations of SIIL on account of the ongoing litigation, this would remain a key rating monitorable.

Key rating drivers and their description

Credit strengths

Largest manufacturer of industrial explosives and initiating systems in India with established global presence – The Group has been operational in the field of manufacturing explosives for over 25 years with SIIL being the flagship company of the Solar Group. SIIL is a leading player in the industrial explosives sector with a sizeable market share of around 24% in India and significant manufacturing capacities in the domestic and overseas market. The extensive experience of the promoters and the Group's well-established track record have helped it expand business in over 75 countries with SIIL being the largest exporter of explosives. Exports and overseas sales contributed to 40% of the company's total revenues in FY2024. The domestic explosives sector accounts for 70-80% of SIIL's total revenues on a consolidated basis, followed by a 20% share of the initiating systems and the defence sector. The explosives manufactured by the company find application in the mining, infrastructure and construction industries. EEL remains strategically important because of its sizeable manufacturing of initiating systems as well as product development for defence application, an area of importance for the Solar Group.

Reputed clientele comprising large players in mining industry provides repeat orders – - CIL and its subsidiaries are SIIL's key customers, contributing to ~15-18% of its revenues in the last four years. Notwithstanding its established relations with CIL, the company has diversified its customer profile to include new customers with the allocation of mines to private companies. This customer diversification has reduced the contribution of CIL in the revenue mix as a percentage of the total sales, though in absolute terms the revenue has been increasing YoY. Its other major customers are the Ministry of Defence (Government of India), SCCL and infrastructure players. The company's total order book currently stands at around Rs. 13,000 crores; this comprises orders worth ~Rs. 2,100 crores from CIL and SCCL which are to be delivered over the next two years, indicating revenue visibility. Apart from that, for the defence segment, order book as of December 31, 2024, was around Rs.4,971 crore and with the recently received Pinaka order of around Rs.6,000 crore, total order book for defence would be approximately Rs.11,000 crore.

Group's healthy revenue and profitability, comfortable capitalisation and coverage metrics; price variation clause with key clients limits moderation in profitability – The company has witnessed a healthy revenue growth of 20.5% in 9M FY2025 at Rs. 5,373.7 crore and the revenue growth is expected to remain healthy in FY2025, driven by a strong defence order book and visibility on offtake by CIL and SCCL. The operating profit margin (OPM) of the company improved to around 24.4% in FY2024 and 26.4% in 9MFY2025, supported by moderating ammonium nitrate prices and the rising share of defence and export orders/international revenues which have higher margins. ICRA expects the margins to remain healthy in the range of 22-25% going forward. ICRA notes that the company has price escalation clauses in its agreements with key clients that inhibit material variability in margins to an extent even as the pass-through may be with a lag.

SIIL's gearing, in line with the management guidance, continued to be at 0.3 times as on September 30, 2024. With an interest coverage of 15.6 times and TD/OPBDITA of 0.7 times (annualised) as on September 30, 2024, the company continues to exhibit comfortable leverage and coverage indicators. SIIL is expected to generate stable cash flows in the coming years with a scale-up in its explosives and the defence sector in the domestic and overseas market. Although the company is undertaking debt-funded capex and has witnessed some increase in its working capital intensity, the expected revenue growth and a healthy profitability are likely to keep the company's gearing at 0.5 times along with comfortable coverage metrics. The company's debt repayments are expected to remain sizeable over the medium term but growing accruals should allow them to be met timely.

Favourable demand prospects with end-user industries demonstrating growth – The company caters to the demand from end-user industries such as mining, infrastructure and defence. With the Government's rising budgetary allocations towards defence, the demand prospects for the company's products are expected to increase. Also, the Government's emphasis on increased allocation for indigenous sourcing of identified products over the next few years and the company's track record of supplies augur well for the company's prospects in defence supplies.

Credit challenges

Vulnerability of profits to raw material price and forex fluctuations – The key raw material required by SIIL in manufacturing explosives is AN, the prices of which are volatile. As the raw material procurement is not entirely order-backed, the company's margins remain vulnerable to any adverse fluctuation in commodity prices. SIIL, however, enters into contracts having price escalation clauses with its key customers, which mitigate the risk to an extent and allows it to pass on the price increase, though with a lag.

Further, the company remains exposed to the volatility in foreign currency fluctuations. The natural hedge through growing exports and invoicing in US dollars in select markets mitigates the forex risk to an extent. The company has started availing loans in local currency for overseas subsidiaries; however, for new subsidiaries, it mostly depends on US dollar-denominated borrowing from its Mauritius subsidiary. Therefore, some forex risk will persist.

High sector concentration risk with considerable portion of revenues from mining – SIIL exhibits high sector concentration risk with a considerable portion of its revenues derived from the mining sector and, thus, the revenues remain vulnerable to the mining activity in the country to an extent. Entities such as CIL and SCCL dominate its revenue profile, highlighting its high dependence on the mining sector. Any operational or regulatory impact on the mining sector could impact SIIL's revenue growth. The company's efforts to increase its presence in other sectors, especially defence, are expected to provide some comfort against sector concentration risk, going forward. The management's initiative to diversify the revenue mix is also evident from the decline in the revenue dependence on CIL and its subsidiaries to 15% in FY2024 from 26% in FY2016.

Exposure to regulatory risks – SIIL operates in a highly regulated explosive manufacturing industry with high entry barriers. Its operations, therefore, remain vulnerable to any changes in the regulatory framework impacting the industry.

Lumpiness in defence business with long approval cycles and tender-based awards – Though the company has maintained a dominant position in industrial explosives, the management forayed into the development and supply of defence consumables and ammunitions over the past decade with technical assistance from the Ministry of Defence. The company has recently received a specific work order from the Ministry of Defence, GoI, for the supply of defence products. Although measures such as increased budgetary allocation towards defence, announcement of negative lists of imports to encourage domestic procurement and permitting the export of select products offer huge opportunity for the company, the approval process remains long-drawn. This, coupled with the tender-based bidding process, may bring in lumpiness in revenues from this sector..

Environmental and Social Risks

Environmental risk - The industry is exposed to the risk of tightening regulatory norms for production, water management, waste and hazardous material management, given the safety and environmental health-related concerns associated with explosives. Additionally, some products can face restrictions/substitution over time because of their hazardous nature. Further, litigation risks could be high in the event of accidents. While the company has a demonstrated track record of running its operations safely, the nature of the risk weighs on its rating.

Social risk - Companies like SIIL need to operate responsibly as it is an imperative and instances of non-compliance with environmental, health and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the ability to operate or expand the capacity. The company hasn't experienced/reported any incident suggestive of safety lapses in its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be a monitorable.

Liquidity position: Adequate

SIIL's liquidity position shall remain adequate, going forward, supported by net cash accruals of Rs. 1,000-1,200 crore, free cash balance of Rs. 292.2 crore as on September 30, 2024, and a healthy cushion in the working capital facilities. The net cash accruals should remain adequate to meet the sizeable debt servicing requirements going forward and for the funding required for the Rs. 1,200-crore capex programme for FY2025.

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 materially large debt-funded capex. Any adverse regulatory measure(s) that weaken(s) the credit profile could also put pressure on the rating. A specific credit metric that could lead to a rating downgrade is total debt/OPBITDA remaining above 1.5x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of SIIL and EEL. ICRA has considered the consolidated financials of SIIL; the company had seven subsidiaries, 18 step-down subsidiaries, one associate and one entity with joint control/significant influence, the details of which are provided in Annexure-2

About the company

Solar Industries India Limited (SIIL) is the flagship company of the Solar Group, which is promoted and headed by Mr. Satyanarayan Nuwal. The company started with the 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 application in the mining, infrastructure and construction industries. The Group forayed into the defence sector in 2010 and diversified into the manufacturing of propellants for missiles and rockets, warheads and warhead explosives. At present, there are 32 manufacturing plants across nine states in India, in addition to seven overseas units in Zambia, Ghana, Nigeria, Turkey, South Africa, Tanzania and Indonesia. The company has also established a centre of excellence for the life assessment of explosives and ammunition. The Group's head office is in Nagpur (Maharashtra).

Key financial indicators (audited)

SIIL Consolidated	FY2023	FY2024	H1FY2025*	9MFY2025*
Operating income	6922.5	6070.8	3400.6	5,373.7
PAT	811.4	874.9	597.2	933.7
OPBDIT/OI	19.5%	24.4%	26.3%	26.4%
PAT/OI	11.7%	14.4%	17.6%	17.4%
Total outside liabilities/Tangible net worth (times)	0.8	0.6	0.7	-
Total debt/OPBDIT (times)	0.9	0.8	0.7	-
Interest coverage (times)	14.9	13.6	15.6	16.2

*Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; * Unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)				Chronology of rating history for the past 3 years					
					FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	17-Feb-25	28-Nov-24	Date	Rating	Date	Rating	Date	Rating
Commercial paper	Short Term	250	[ICRA]A1+	[ICRA]A1+	26-Dec-23 28-Nov-23	[ICRA]A1+	28-Nov-22	[ICRA]A1+	29-Nov-21	[ICRA]A1+

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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Unplaced	**Commercial paper**	-	-	-	125.0	[ICRA]A1+
INE343H14170	**Commercial Paper**	29 Nov 2024	-	27 Feb 2025	50.0	[ICRA]A1+
INE343H14188	**Commercial Paper**	12 Dec 2024	-	12 March 2025	75.0	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Subsidiaries		
Economic Explosives Limited	100.00%	Full Consolidation
Emul Tek Private Limited	100.00%	Full Consolidation
Solar Defence Limited[1]	100.00%	Full Consolidation
Solar Defence Systems Limited[1]	100.00%	Full Consolidation
Solar Avionics Limited[1]	100.00%	Full Consolidation
Solar Explochem Limited[1+4]	100.00%	Full Consolidation
Solar Overseas Mauritius Limited	100.00%	Full Consolidation
Solar Mining Services Pty Limited, South Africa	93.62%	Equity Method
Solar Nigachem Limited (Formerly known as Nigachem Nigeria Limited)	55.00%	Equity Method
Solar Overseas Netherlands B.V.	100.00%	Full Consolidation
Solar Explochem Zambia Limited	65.00%	Equity Method
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[2]	53.00%	Full Consolidation
Solar Nitro Ghana Limited	90.00%	Equity Method
Solar Madencilik Hizmetleri A.S	100.00%	Full Consolidation
Solar Overseas Netherlands Cooperative U.A	100.00%	Full Consolidation
Solar Overseas Singapore Pte Ltd	100.00%	Full Consolidation
Solar Industries Africa Limited	100.00%	Full Consolidation
Solar Nitro Zimbabwe (Private) Limited[1]	100.00%	Full Consolidation
Solar Nitro chemicals Limited	65.00%	Equity Method
Solar Mining Services Pty Ltd, Australia	100.00%	Full Consolidation
Solar Mining Services Cote d'Ivoire Limited SARL[1]	100.00%	Full Consolidation
Solar Venture Company Limited	55.00%	Equity Method
Solar Mining Services Burkina Faso SARL[1]	100.00%	Full Consolidation
Solar Mining Services Albania	100.00%	Full Consolidation
Solar Nitro SARL[1+3]	85.00%	Equity Method
Solar Nitro Kazakhstan Limited[1+4]	59.40%	-

Company Name	Ownership	Consolidation Approach
Solar Nitro (SL) Limited[1+5]	100.00%	Full Consolidation
Power Blast LLP[1+6]	100.00%	Full Consolidation
Rajasthan Explosives and Chemicals Limited[3]	0.00%	-
Associates		
Zmotion Autonomous Private Limited[5]	45.99%	Equity Method
Solar United Company Limited[1+7]	49.00%	-
Ortiz Investment (Pty) Limited[8]	49.00%	-
Entities with joint control or significant influence over the entity		
ASTRA Resources Pty Limited	49.00%	Equity Method

Source: Annual Report FY2024

Note 1: The entity has not commenced its business operations

Note 2: The entity is under liquidation.

Note 3: Subsidiary of Emul Tek Private Limited with effect from December 16, 2023

Note 4: The entity was incorporated on May 05, 2023

Note 5: The entity incorporated on November 7, 2023

Note 6: Acquired by Solar Nitro Kazakhstan Limited with effect from October 1, 2023

Note 7: The entity incorporated on July 18, 2023

Note 8: The entity incorporated on May 09, 2023

Corrigendum

The commentary on related to revenue growth expectation in FY2025 was modified on page-1.

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